DOCUMENT RESUME

ED 381 111 HE 028 281

AUTHOR	Kedney, Bob; Davies, Trefor
TITLE	Cost Reduction and Value of Money.
INSTITUTION	Staff Coll., Bristol (England).
REPORT NO	ISSN-0305-8441
PUB DATE	95
NOTE	88p.
AVAILABLE FROM	The Staff College, Coombe Lodge, Blagdon, Bristol BS18 6RG, England, United Kingdom (9.50 British pounds).
PUB TYPE	Collected Works - Serials (022)
JOURNAL CIT	Coombe Lodge Report; v24 n6 1995
EDRS PRICE	MF01/PC04 Plus Postage.
DESCRIPTORS	Administrative Change; Budgeting; Budgets; Change Agents; *Change Strategies; *College Administration; *Costs; Educational Finance; Environmental Scanning; Expenditures; *Finance Reform; Financial Needs; Financial Problems; Fiscal Capacity; Foreign Countries; Higher Education; Organizational Change; Planning; Retrenchment; School Accounting; Strategic Planning
IDENTIFIERS	*United Kingdom

ABSTRACT

This report is designed to assist newly independent colleges in the United Kingdom to examine expenditures objectively and critically in order to promote the most effective use of all funds and resources. Chapter 1 looks at: the rationale for cost reduction; the importance of scanning the operating environment as part of developing an overall strategy; traditional approaches to resource management; cost citing versus cost reduction; total absorption, marginal, and opportunity costing; and the management of expenditure. Chapter 2 describes a six stage approach to savings involving project initiation, activity analysis, option assessment, option selection, consultation and negotiation, and implementation. Chapter 3 examines opportunity analysis and selection and uses an example to illustrate cost cutting in the context of careful examination of resources and priorities and the development of a management approach that identifies key tasks, key players, and critical benchmarks. Chapter 4 discusses ways to manage an institution that facilitates and sustains the type of economic change described here. An appendix contains a checklist for evaluating cost reduction processes and options. (Contains 39 references.) (JB)

****
* Reproductions supplied by EDRS are the best that can be made *
* from the original document. *
****

HE

ED 381 111

The Staff College

Cost reduction and value for money

by Bob Kedney and Trefor Davies

Coombe Lodge Report

HE 028 281

"PERMISSION TO REPRODUCE THIS MATERIAL HAS BEEN GRANTED BY

The Staff College

TO THE EDUCATIONAL RESOURCES INFORMATION CENTER (ERIC)."

U.S. DEPARTMENT OF EDUCATION
Office of Educational Research and Improvement
EDUCATIONAL RESOURCES INFORMATION CENTER (ERIC)

X This document has been reproduced as received from the person or organization originating it.

☐ Minor changes have been made to improve reproduction quality.

• Points of view or opinions stated in this document do not necessarily represent official OERI position or policy.

Cost reduction and value for money

by Bob Kedney and Trefor Davies

Edited by Pippa Toogood

Coombe Lodge Report
Volume 24 Number 6

Coombe Lodge Reports

The Coombe Lodge Reports are key reference texts for those involved with the management of post-compulsory education. Each issue focuses on a single theme relevant to the management of further and higher education.

The views expressed in this report are those of the contributor(s). They should not be taken to represent the policy of The Staff College.

Published by The Staff College,
Coombe Lodge, Blagdon, Bristol BS18 6RG
Tel: 0761 462503 Fax: 0761 463140
Registered with the Charity Commissioners

Typesetting by Avonset, Midsomer Norton, Bath
Printed by BPC Wheatons, Exeter

ISSN 0305-8441
© The Staff College 1994

All rights are reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, electronic, electrical, chemical, optical, photocopying, recording or otherwise, without the prior permission of the copyright holder.

Cost reduction and value for money

by Bob Kedney and Trefor Davies

Contents

PREFACE		441
CHAPTER 1:	**Introduction and background**	443
CHAPTER 2:	**A structured approach to savings**	459
CHAPTER 3:	**Opportunity analysis and selection**	473
CHAPTER 4:	**Making change happen**	501
APPENDIX 1	**References**	507
APPENDIX 2	**Cost reduction processes and options: a checklist**	511

Preface

To some readers it may seem surprising that almost two years after the incorporation of colleges a report is published which, at first sight, appears to be concerned with proposing ways of reducing the funding of learning at college level.

What happened to the excitement and optimism of 1992, when so many in the FE and sixth form college sector looked forward to an increase in overall funding once free of local authority control with all its financial instability and fluctuating priorities?

We have worked closely in the past year with many of the newly independent institutions and have seen that initial optimism replaced by the realisation that the freedom of independence to plan and to prioritise in the context of education and training at institutional level, has brought with it a responsibility to examine every aspect of current spending with the aim of reducing waste and increasing effectiveness.

The funding of learning at college level can be considerably enhanced if money is spent wisely and within a value for money framework.

At national level the target growth in the sector between 1993 and 1996 will not be accompanied by an equivalent increase in central funding. The resulting efficiency gain is the common challenge to all colleges and it requires college managers to give priority to efficient and effective budget contruction and the development of innovative spending policies and strategies.

In addition to overall efficiency gain colleges have sought to deal with other financial pressures in the past two years. These include: inherited financial weakness at the point of transfer; a need to comply with the terms of their financial

memorandum in controlling and eliminating a deficit; a policy to strengthen the balance sheet in terms of reserves and provisions; a wish to effect a significant redistribution of traditional spending to open up opportunities for new development and changes in the curriculum and its delivery; and the discovery of new expenditure demands which seem to have fallen outside the traditional budget arrangements or were not rehearsed in readiness for independence.

For some colleges, there is the additional challenge of dramatically and quickly reducing their average spending per student within the Further Education Funding Councils' (FEFCs) policy of reducing the sector's inherited disparity in average spending.

In recent months value for money studies have been initiated by the FEFC and the National Audit Office.

It is hoped that this report will assist colleges, irrespective of motivation or opinion on funding policy, to examine expenditure objectively and critically in order to promote the most effective use possible of all funds and resources at their disposal and obtain and provide value for money.

We are confident that a sector which has overcome so many difficulties and demonstrated considerable efficiency gains over the past 15 years or so will accept and meet the financial challenges of independence.

Chapter 1

Introduction and background

WHY COST REDUCTION?

Everyone in college can immediately produce an excellent short list of ways to spend money to good effect, but few it would seem can identify and achieve savings as quickly and effectively. One of the critical challenges now facing many managers in the FE system is to find acceptable ways of saving money. Put somewhat more starkly it means finding creativity in adversity. The combination of the spread of historical unit costs and the efficiency targets set out in the Government's Public Expenditure Statement provide the backcloth on to which has to be painted the individual inheritances and aspirations of each college. Needs will vary, from reducing deficits from pre-incorporation days and/or planning for the lean years to come, to building the investment portfolio necessary to respond to the dynamic times we live in. Few if any can expect to be doing in five years time what they are doing now, or that additional moneys will appear to pay for the change.

Colleges approached independence from different points. References are being made to individual credit balances and deficits running to seven figures for some colleges, whilst others debated the starting point of their financial position with their former local authority for much of the first year of independence. Almost all have had to come to terms with new ways of defining the bottom line which carry elements of costs not previously encountered but which have to be met. Forecasts pointed to over 100 colleges projecting a deficit totalling £42 million at the end of their first accounting year (THES 1993). In higher education half of the institutions faced a potential breach of their financial memorandum a year or two on from

Vesting Day (National Audit Office 1991). One-third were still in deficit after two years, but with projections falling to a quarter the following year. Given that the polytechnics and HE colleges had the advantages of greater experience, maturity and a national formula funding to draw on prior to incorporation, this may yet prove a salutary reminder to colleges.

For many institutions the key challenge comes from the convergence of the historically diverse costs which have to be added to the growth targets and the efficiency savings set for all colleges. The divergence of current practice, however, also points to opportunities for change. Such analytical data as are available indicate wide differences in spending levels and working practices. To this can be added the variety of ways of raising efficiency and cutting costs that have been developed in recent years by over 400 institutions. Previous challenges set by the Joint Efficiency Study (DES/WO 1987) and the Audit Commission (1985) seemed daunting at the time but appear much less so now. Clearly success can be achieved but it will depend on commitment and leadership, target setting, analysis of all costs and above all, creative management.

SCANNING THE OPERATING ENVIRONMENT

One of the key characteristics of the college of further education has always been change, be it through responding to government initiatives, economic and industrial development or through service to the local community. The year 1992/93 will no doubt be seen as a watershed for it was then that colleges were given substantive freedoms to carry those traditions forward at a faster and broader pace. However, one of the critical differences this time around is that of the underpinning financial structure. Colleges are no longer part of a large public organisation; they can, and some may, go bankrupt. Others will have to find new ways of funding their aspirations in a period of forced efficiency rises and greater public accountability.

The management of change has, to a large degree, been related to resource control and the freedom to invest in the past, present or future. Colleges have traditionally sat between the former polytechnics and the schools in terms of budget size and ownership of assets. They are medium-sized companies but almost all their operating experience has been more like that of a junior branch of a multi-faceted organisation. Until 1 April 1993 (incorporation) they had very limited powers to hire or fire employees or to gain, dispose of or remodel capital assets. Beyond that, but within the general constraints of the financial year, they had freedom to operate as they saw fit.

One of the tasks now facing each corporation is the definition of its overall strategy, sharing its thinking with its principal source of funding, the Further Education Funding Council, and proving that it has the wherewithal to fund the plans. All the hopes and aspirations of the college have to be underpinned by a demonstration of an ability to finance its intentions. Furthermore the funding implications have to be tested by a sensitivity analysis that demonstrates possible outcomes. In doing so account has to be taken of a range of external and internal factors through environmental and organisational scanning.

Of primary significance in any review of the external environment is the operating context set by the Public Expenditure White Papers. Colleges are given an expansion target of 25 per cent over three years, with a 16 per cent increase in recurrent funding. Individual institutions are free to set their own planned recruitment levels but the system generally has to recruit more and achieve an overall efficiency rise of three per cent per annum. Should a college therefore determine, for its own good reasons, that it plans to stand still or aim for a lower growth rate it will need to plan for a unit of resource which is reduced by more than three per cent of the current value. This growth target is for the sector as a whole but colleges are not positioned on a level playing field. Historical analysis suggests that five or so years after formula funding at the local authority level historical precedent still rules. The position explored by the Audit Commission and the Joint Study of Efficiency in the mid-1980s seems to have survived formula funding with remarkable vitality,b ut that is beginning to change.

The funding council initially adopted a four part classification of colleges to generate broad groupings, the largest being the general further education and tertiary colleges. The mean unit cost on incorporation for sixth form colleges was eight per cent higher than for their FE counterparts, yet they had little or none of the heavy and expensive elements of the curriculum. Art and design colleges were 23 per cent higher at the median and colleges of agriculture 47 per cent.
A single, national funding methodology, however sensitive and concerned with stability, can hardly be expected to accept and reward history and inefficiency, whatever its causes, at the expense of the more efficient in the hard times to come. Given the stated aims of the government and the FEFC it is clear that a high priority must be given to achieving convergence. The funding of the projected growth in student enrolments over three years has given a window of opportunity for the national planners and individual colleges to manage change.

Figure 1 shows that the variation in the average level of funding per unit (ALF) is narrowing as the new funding methodology rewards growth and drives convergence.

As critical as FEFC funding clearly is to the future of colleges it is but one element in the wider scanning of the environment facing colleges. It would clearly be a very wise (or foolish) man or woman who would gamble all on an optimistic prediction of the national economy three to five years ahead. Colleges will have to make some assumptions, however broad, in relation to the general ability and the continued willingness of the government to invest in post-secondary education. Set within this framework of planning assumptions are judgements about the local position which go beyond demographic trends, discretionary awards and competition from schools and private trainers. However notoriously difficult such estimates may be they need nevertheless to inform forward thinking, and take it beyond the macro levels of degrees of optimism, standstill or some degree of contraction.

Incorporation has meant greater freedom to manage and plan internal investments, but colleges have carried over a range of inheritances and traditions. In terms of their physical assets they have widely differing implications, as the Hunter surveys of college properties have shown, and whereas specific grants go some way to meeting costs they have to be supported by college contributions. Furthermore, the baseline in relation to facilities, equipment and materials needed to deliver the changing and varied curriculum differs widely. However, it is perhaps in terms of the mix and fit of employees that the differences are greatest. As human resource and assets strategies are developed and spelt out more clearly the financial implications of the five year strategic plan will become apparent to colleges who will then be better placed to assess the implications of their differing inheritances.

Figure 1: Changes in funding levels, 1992/3 to 1994/5: general FE and tertiary colleges

1992/3 as funding per FTE

Minimum	*Maximum*
£1486	£4464

1993/4 and 1994/5 as average level of funding per unit of activity

1993/4		*1994/5*	
Minimum	*Maximum*	*Minimum*	*Maximum*
£7.44	£33.20	£11.74	£29.05

Source: FEFC

As part of a local authority, colleges had little or no opportunity, or need, to generate a contingency fund or to build reserves. These had generally been met in the past by the LEA but with incorporation the responsibility fell to the institution. Major projects, be they new build, coping with emergencies or the restructuring of substantive parts of the staffing establishment, will make calls on such provisions. If colleges are to break out of a day-to-day approach to resource management and move towards realistic planning for the implications of the college mission, it is likely that the building of contingency and earmarked reserves will be critical.

Where colleges have mapped what they have inherited and effectively scanned where they plan to go it is likely that they will have identified the need to cater for uncertainty. For some the challenge of the future will go well beyond managing the movement of existing resources to future priorities. However limited the scale of change it can be expected to be unwelcome for few managers readily recognise substantive areas of reserves, slack or waste which offer easy economies, not even in someone else's area of operation. It is nevertheless a decade since the then Director of the (Further Education) Staff College responded to defensive arguments and special pleading by observing that:

> The suggestion that contraction means a loss of quality starts from the hypothesis that we are at the optimum position at the moment.
> (Wheeler 1983)

TRADITIONAL APPROACHES TO RESOURCE MANAGEMENT

With a few notable exceptions, year-on-year change in the levels of funding of colleges has largely been marginal, of the order of a few percentage points growth in good years, and of similar levels of contraction at other times. The diversity of funding mechanisms, particularly the growth in popularity of specific grants, has tended to provide colleges with ways of alleviating the worst effects of possible contraction. The experiential base of many managers has therefore been one of year-on-year marginal change and of specific funding which has been project based, fixed term and diverse to the point of almost being fragmentary. Time scales have been short, often focused within a single year.

When entrenchment occurred and could not be offset by a specific grant, college experience here and in the United States has followed a somewhat similar pattern. Cuthbert (unpublished) saw this in terms of three phases, the first being one of

disbelief and an expectation that it would blow over. Budget reductions were sought through savings on postage, telephone calls, photocopying and printing, travel expenses and the purchase of equipment and materials. Should this prove inadequate or the cuts cycle re-occurr at the next budget crisis, the language of debate moved on to costs per student which exposed weaknesses in the management information systems. As realisation dawned cuts were made in part-time staffing leading to the loss of some courses, the shortening of full-time programmes and steps were taken towards internal re-organisation. The third phase, that of permanent reductions in the unit of resource and/or student enrolments, caused a radical response or conversly, colleges became locked into the thinking of the earlier phases. Casey (1983) gave an American parallel in the following somewhat graphic terms (see **Figure 2**).

When this fails to meet the need for spending less it becomes necessary to seek disproportionate cuts in specific areas of spending by slicing major elements from selected expenditure lines (see **Figure 3**).

Figure 2: Stage one – the slimming approach (or 'cut it out now and put it back later')

Responses included:

Recycling envelopes and paper clips

A temporary freeze on supplies

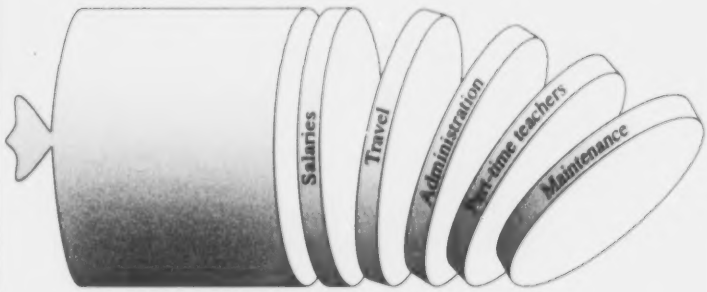
Putting off decorating

Contraction of staff training

Reduction of photocopying and printing costs

Savings on staff travel and subsistence costs

Figure 3: Stage two: the salami slice model



Source: Casey 1983

As budgets cuts continue or grow larger the consequences become more severe and drastic action has to be taken leading to the cessation of spending in some areas leading to stage three, dismemberment by joints (see **Figure 4**).

The fourth stage, that of the restructuring of the organisational model, may for some be no more than 'returning to their knitting', for others it will be a radical rethink of the role and direction of the institution. The integration of the primary functions of the college, based on its key values, with its ability to resource those activities will demand clarity and hard choices. As yet the organisational culture of the college is diffuse and usually expressed in grand and abstract terms. Critical values are difficult to define with the precision sought by those wishing to set measurable targets. There are, however, deeply felt beliefs that become recognisable when threatened. These should form the basis for making those choices in difficult times. One route to discovering key values, but not the most constructive, may be to threaten them. It is unlikely to be a prefered choice, though it can be conducive to effective leadership and management of the processes of cost reduction. The outcome is likely to be akin to the rueful remark made by Briault at the time of the national debate on the closure of the William Tyndale primary school in the former ILEA; he observed that 'the best way to turn a poor school into a good one is to threaten to close it'.

Figure 4: Stage three: devastation by category

How far colleges see themselves faced with challenges of the management of radical change in terms of resource investment over the period of their strategic plan and beyond, is clearly a matter for local judgement. Scale in terms of time and volume will be critical to the choice of tactical cost cutting or broader, strategic approaches to cost reduction.

COST CUTTING OR COST REDUCTION?

Colleges are created to provide a service for the public and as such are non-profit making organisations, they cannot therefore be measured by cash returns to their investors. They are nevertheless required in law to be both effective and efficient in the exercise of their service, and spending less for more has to be set in this context. It is over a decade since CIPFA distinguished between cost reduction and

cost cutting. Cost cutting is regarded as spending less and as such can be essential to the achievement of a balanced budget. Cost reduction is 'In plain English, the search for value for money' (Chartered Institute of Public Finance and Accountancy, **Cost reduction in public authorities**, 1974).

Such an approach calls for the clear determination of objectives and reviewing ways of meeting them at minimum cost for, as Knight stated:

> Let no-one deride the word cheaper. There is no advantage in education being more expensive than it has to be.
> (Knight 1983)

The distinction is important, but while it is easy to propose it is not always simple to achieve. Indeed, if it were, colleges could be accused of profligacy for not having done so already. If cost reduction rather than cost cutting is to be a guiding principle it needs to be stated at the outset and returned to throughout the review, selection and implementation stages.

Managing an effective college calls for more than balancing the accounts as it demands clear, known and shared relationships between purposes and spending in the short- and longer-term. The institution has to set clear priorities and relate resources to their efficient delivery. This process will call for judgements on lead investment and subsidies which in turn will demand the identification of milch cows from which resources are to be drawn. Setting the primary focus of this report as an examination of expenditure is deliberate for the greater part of FE is a public service for which income rates are largely fixed outside the college. The primary concern has to be on that which the college can control rather than that which it simply hopes to influence. This is not to deny that colleges can, at the margins of their activities, undertake full-cost work where they fix the prices, and that these may generate profit for re-investment. Should these functions not cover absorbed costs in the short- or the long-term they will only add to the need to look at their full resource implications. Account has therefore to be taken of the calculation of inputs in relation to sources of income.

Determining cost is likely to be the easier part of the value for money equation. Setting down prime values is more problematic but may be approached through such questions as 'Can we afford to do it?', and 'Can we afford not to do it?'. If the answers point to action, the need then is to question further through an examination of one or more of the following options. Cost reduction can come in a number of forms and may follow from:

- spending less for the same or more output;
- spending the same for more output;
- generating profit when income is greater than the absorbed costs;
- accepting income which is greater than the direct but less than the full financial cost where other gains are deemed to bridge the gap;
- maximisation of fixed income; and/or
- spending less for acceptable levels of diminution of volume and/or quality.

This list is not exhaustive and it can be added to and selected from to match responses to purposes – it is for each user to determine how far it offers a helpful starting point. It simply seeks to identify a planning frame for a number of routes to success before options are closed down.

If cutting expenditure is to be more than simply saving money by spending less it has to take account of the impact on educational activity as well as any loss of income. It will be necessary to model a number of options and results over time against the objectives of the college and the purposes of the cost reduction exercise. The identification and permutation of options can, however, become a cause for philosophical debate, a distraction or a tactic for deferring or avoiding hard decisions. Such responses are only likely to make the position worse and a balance must be struck between the identification, consultation and assessment of options and timely action.

Traditional approaches to cost reduction have included across-the-board cuts, one-off studies in selected areas and arbitrary budget reductions. They have tended to be narrow in their scope, imposed rather than owned by line managers and short-term as the system has sought to return to 'status quo'. A more strategic approach would, by contrast, seek to be more comprehensive in its review, integrated in its changes, concerned with output and outcomes rather than input costs, and focused on the medium- and long-term. In doing so, however, it would have to balance the costs in terms of the investment of time, money and management action now with the need for immediate savings, payback over the financial year and returns over the period of the strategic plan and beyond.

In developing its argument for cost reduction strategies rather than tactical cutting, CIPFA identified two approaches to their development. The first, termed the *pragmatic*, responds to the need for speedy and selective action but in doing so seeks to relate money spent to the achievements for money committed. It can range from simple and specific economies within the power of individual managers to fundamental re-appraisals of policy by the corporation. The second phase, to which the pragmatic approach can contribute, is the *systematic approach* which moves towards being comprehensive, integrated with target setting and based on appraisal at each stage of the process. Appropriate measures of output are identified and linked to measures of input, and performance targets are compared with actual outcomes. Such rationality may appear utopian as movement year-on-year often seems to be either random or developed with crab-like shifts over time. Systematic thinking does not presuppose total control but rather looks to coherent mapping and evaluation which links opportunities for managed change.

It is possible to identify a number of approaches that have been adopted and which go beyond immediate panic or 'short-termism'. The 1960s and 1970s were the period of output-based, zero-based and programme planning and budgeting (PPBS) techniques where any investment was to be tested against a clear statement of purpose or the implications of not investing at all (e.g. DES 1970, Begley and Nelson 1973). The overarching ambitions, however, sat ill upon the traditions of pragmatism, annual financial provisions and dispersed control systems. The late 1970s and early 1980s saw short-term ad-hoc responses to yearly stop-go changes in funding levels. In the last decade there has been a series of reports flowing from the studies by the Audit Commission and its publication of **Obtaining better value from further education** (1985) and the DES/Welsh Office Joint Efficiency Study report **Managing colleges efficiently** (1987).

Up to 1988 FE institutions were largely able to wait for and blame local and/or central government for budget cuts and to look for leadership to the LEA as the employer of its staff and the owner of its buildings. Following the provisions for delegation and carry forward in the 1988 Education Reform Act colleges had opportunities for some measure of tentative planning and some degree of ownership in balancing the college accounts. The 1990s have seen the coming together of a need for a more systematic approach that looks beyond the current year and assumptions about inherited, fixed costs to strategic planning. A greater awareness of the cost implications of aspirations is now being set alongside a taking up of control over expenditure and commitments.

Pursuit of value for money in FE will call for value judgements by those charged with managing the delivery of the service. It will call for middle managers, already familiar with the demands of the curriculum and its validation, to become aware of, and expert, in their role as resource managers. If the opportunities as well as challenges of the next few years are to be realised a more strategic approach needs to be developed across the college.

COSTS AND COSTING

The determination of cost in further education has exercised many writers and analysts for the last 25 years. However, there still remains a great deal of ignorance on the part of college budget holders about cost and costing. Costs must be controlled and when setting a price a college manager has to be able to determine the true cost of the service or provision. To continue to operate by best guess or estimates drawn from a limited financial information system attacks the very foundations of any drive for value for money. The shift from administering someone else's rule book to the management of resources is dependent upon a working knowledge of the key concepts of costing and pricing, and a reliable database.

This brief section of the report draws on an unpublished paper by Atkinson (1993) which considers three subsets of costing:

- total absorption costing;
- marginal costing;
- opportunity costing.

Each subset has its own definitions and relevance to particular situations and Atkinson warns the reader that 'It is vital to note that costs drawn from one paradigm cannot meaningfully be compared with costs drawn from another'. He continues, 'It is equally worth observing that within each paradigm differences in methodology can produce incomparable results'.

In the climate of league tables, inter-institutional comparisons and performance indicators those warnings are especially important.

Total absorption costing

Total absorption costing in FE terms is the allocation of all costs to courses (or students) or similar services provided by the college and its main uses are as an

indicator of efficiency and for tracking the employment of resources. Two types of costs are recognised; direct and indirect. Direct costs are those which are readily identifiable with a specific unit or output, while indirect costs are those which do not lend themselves to easy identification with a unit or output. After an analysis of costs into direct and indirect, the direct costs are aggregated and a proportion of the indirect costs is added. The skill, or as Atkinson suggests 'the trick', is how much to apportion.

The Coopers and Lybrand report of 1987 **Further education costing: final report**, largely comprised ways of apportioning different types of indirect costs. In making comparisons between departments and colleges in terms of cost it is essential that indirect costs are applied in the same manner and against the same criteria.

Marginal costing

Full absorption costing can prove too complex and unmanageable in many college situations and a different technique can be prove useful – marginal costing. With this approach costs are again divided into two types – fixed (those which do not tend to change regardless of the level of activity) and variable (those which tend to vary in direct proportion to activity). Examples given of fixed costs in a college context are: HoD salaries, administration, technical support, premises, institutional overheads, etc.; examples of variable costs include full- and part-time lecturers, materials, etc. The usefulness of this approach is the elimination of fixed costs as an issue in decision-making once the variable costs have identified.

Income comparison can be made with increases in marginal costs and the income over and above the increase in variable costs can looked upon as a 'contribution' rather than a profit. It is a contribution to fixed costs and could only be seen as a real profit if income exceeded both variable and fixed costs. It is essential that all costs are identified before classification – the contribution must be set against a true total cost.

Opportunity costs

There are costs associated with various elements that are not easily discoverable such as major plant, buildings, sites, etc. They are not regularly purchased because in large measure they are already owned by the college and so a clear market price is not easily available. For such elements the opportunity cost approach is appropriate and here we are concerned with the 'value' of the best alternative use to which the resource can be put.

Atkinson concludes by making clear that 'Costing is a complex business which becomes confused if we use elements of it in circumstances for which they were not designed. Total absorption costing is essentially a historical process which records how costs have been incurred. Marginal costing is essentially a predictive process used for assessing cost changes with changing production.'

What has to be understood by college managers is that every spending decision requires an evaluation of cost, an assessment of the impact a spending decision will have on the cost of delivery and a clear understanding of the alternative investment options available.

THE MANAGEMENT OF EXPENDITURE

A great deal of advice was proffered in the run up to incorporation on the management of expenditure and cash flow control.

Effective management of a budget requires more than expenditure forecasts and income predictions – it requires accurate cost analysis, a sound understanding of the market-place and a collegiate acceptance that when money is spent or committed the consequences of those actions have been assessed and are fully understood.

The college must have clear and easily understood financial regulations. These regulations have to be both supportive and protective of budget holders. The support will be based on an encouragement to spend wisely and protection will be afforded by giving budget holders the confidence to make decisions within a clear purchasing policy which seeks to maximise value for money.

The distinction needs to be made between formal financial regulations and clear purchasing guidelines and procedures. The latter are essential if budget holders are to spend competently. The guidelines must include advice and information on the college's purchasing strategy in terms of:

- centralised or decentralised purchasing;
- authority levels;
- roles and responsibilities;
- resources to support effective and efficient expenditure.

They will also include advice on specifications, suppliers, call-off contracts, quotations, tendering, tender evaluation, negotiation, legal and regulatory matters.

It is important for budget holders to understand fully the assumptions upon which the college's cash flow is predicted. There must be no misunderstanding of presumed expenditure profiles and patterns. In negotiation a potential buyer must be clear about the implications for college cash management of possible schemes and terms of payment.

Chapter 2

A structured approach to savings

Managers are generally better prepared and more experienced in developing proposals for spending more money rather than finding creative ways of spending less. In recent years experience has often been more with specific bids and coping with ad hoc cuts than with longer term planning. Where cost reductions have been pursued they have focused on non-pay expenditure followed by cuts in staffing rather than the development of a widely based and integrated strategy. Further, where they have involved more than the dismissal of part-timers or voluntary resignations from full-time staff they tended to be led by the local authority rather than the college. Cost reduction strategies may need therefore to be recognised as radical rather than evolutionary change, as part of the planning process of the college, and as the corporate responsibility of its managers. The same principles will apply to identifying and implementing savings within a planning regime as to the achievement of growth. Key values will have to be agreed and shared, objectives defined, management action identified and timetabled, responsibility and accountability clearly identified and known, and outcomes monitored.

If cost reductions are to be integrated with the investment strategy of the college, they need to be set out in an annual operating plan. Managers should be charged with the identification, development and presentation of options and, following consultation and determination by the governing body, with their delivery. Effectiveness is unlikely to be helped by a high degree of centralisation of power in colleges busy devolving spending power or by separating planning from those responsible for managing services. Ownership through consultation and communication is not a speedy process, it is nonetheless vital. Timescales have to be realistic and allow for adequate preparation before implementation. The need has

to be seen and internalised long before pressures for action become imminent. The more immediate and greater the threat, the more likely the reaction is to be one of fight or flight rather than of rational consideration. Planning in good time is easy to advocate but less easy to practice, particularly when the college is already hard pressed. Indeed, it may be argued by some that effective preparation for cost reduction is little more than an invitation to cut deeper. Judgements must be made about the most effective form of management. The position taken here is that timely preparation for changes that seem certain is important. A model which recognises a number of stages in the planning process can be helpful in mapping and monitoring progress. How far this is shared across the college will need to be determined with care and fitted to the emerging culture.

THE SIX-STAGE APPROACH

The identification, sequencing and setting of timescales for a series of key stages in the implementation of cost reduction suggests a sense of order and tidiness that usually evaporates in real life. Nevertheless, it is helpful both in providing an overview and in giving steps which help with the recognition and identification of points for analysis and review. All of the stages given here will be passed through, some more quickly than others and some quicker than hindsight might suggest would have been appropriate. The timescales are based on experience and are illustrative of the pattern that can be set down at the planning stage. As has been indicated, the linear presentation belies the iterative process that will be followed as progress helps to identify further options, eliminates or downgrades early promises and calls for regular revisiting of the definition of purposes and direction. The initial planning model and timescales suggested here (**Figure 5**) are thus a cyclical learning process.

Figure 5: A structured approach to savings

Phase	*Stage*	*Indicative timescale*
Phase 1	Initiation of the project	Week 1
Phase 2	Activity analysis	Weeks 2 to 4
Phase 3	Option assessment	Week 5
Phase 4	Option selection	Week 6
Phase 5	Consultation and negotiation	Weeks 7 to 10
Phase 6	Implementation	Week 11 on

Phase one: project initiation

Project initiation can either be arrived at through the sudden dawning of the realisation of a need for radical savings or by a coming to terms with the need for a structured approach based on operational scanning. The latter, which forms part of the strategic planning process called for by the FEFC, shifts the timescale from the immediate through the annual cycle to medium-term planning for savings. It seeks to identify key issues relevant to the sensitivity and risk analysis elements and through them, to recognise critical change factors. A strategic approach also calls for an examination of the operating context which goes beyond the immediate and most recognisable pressures. Environmental and organisational scanning will be needed if initial concerns and ideas are to be related to institutional purposes. This needs to be set in terms which ensure that hard choices are related to educational purposes as well as the balancing of the books. Financial objectives have to be set in the context of where the college is going as well as where it has come from and where it is now. Clearly survival is critical and the annual financial statements need to be kept under review but a medium-term perspective will also need to take in the identification and prioritisation of needs as well as wants. If these are to be financed by leasing or capital purchases the on-going revenue commitments have to be built in to the planning process alongside the funding of contingencies and reserves.

If the college is to set its primary educational purposes alongside its pursuit of becoming more businesslike it will need to set out its criteria for the value for money process in terms that it will use to judge progress, and would wish to be judged by. The spending aspirations and any current or projected shortfalls are obvious starting points which have to be mapped against the current provisions and commitments. There is a natural tendency to pass quickly through this stage and let the benchmarks emerge as progress is made. They may then give a better fit and a more comfortable feel but this is courting danger by being seen as rationalisation rather than comprehensive review.

Under formula funding the maintenance of student enrolments will carry a high priority, as will the protection of those staff charged with managing change or delivering the courses. An early example drawn from the American context sets some interesting challenges that may be familiar in the UK. The Seattle Community College set down the following when faced with budget cuts a decade ago.

Criteria for the retrenchment process:

- the college mission will be maintained;
- tenured faculty staff will be retained;

- access will be provided for as many students as possible;
- quality will be maintained through contraction;
- adequate support staff will be maintained.
  (Casey 1983)

The avoidance of redundancies is reminiscent of statements made in colleges in this country but it does place a heavy focus on direct, non-staff costs and a selective scrutiny of overheads. Consultancy studies in this country suggest that whereas over 20 per cent of the latter could be saved by overhead cost management techniques this will require external assistance and probably involved federal participation with other colleges. However, even substantive economies on overheads may not be enough to support fine ambitions if the scale of cost reductions set for savings and re-investment is more than relatively minor.

The second of the key tasks at the initial stage is to determine who will do what. The exercise will need a structure for review, reporting and decision-taking and a steering group will be needed with a clear role and powers. This may consist of the college executive, of senior officers and members of the corporation, or a mix of senior and middle managers. If policy decisions have been taken concerning the mission and strategic objectives cash targets and key or 'no-go' areas (if any) can be drawn out and the brief of the steering group can be established. Working to the group will be task management teams who will again require clear terms of reference. A balance needs to be struck in terms of the involvement of colleagues in areas of control devolved to line managers but neutrality will emasculate the exercise as much as any arbitrary powers which cut across existing patterns of decision-taking.

The first planning phase will call for analyses of the core and discretionary activities set against the primary mission. As colleges have a tradition where questioning has tended to be limited to the margins, perceptions are often based on an acceptance of what is and has been rather than focused on what could or should be. Financial data tend to be organised to serve administrative purposes rather than the review function. Thus, for example, the costs of individual buildings are rarely readily available and the analysis of course/module costs may only just be coming on line. As colleges tend to compartmentalise activity it is often only the executive and cross-college postholders who have any call to take a wider view.

In due course the performance review processes and the on-going development of the strategic plan will strengthen and give depth to this initial phase. Progress into the second element of planning will call for analyses and statements on human and

physical resources. As the internal and external audit services pay atten.ion to aspects of value for money, and the quality and efficiency studies of the FEFC and the National Audit Office come on stream they will also serve to give depth to what at first will be a challenging task. The continuum described below has been adapted from **Key issues in getting value for money** (CIPFA 1987) to give a possible map of inputs to this initial phase (**Figure 6**).

THE PERFORMANCE REVIEW CONTINUUM

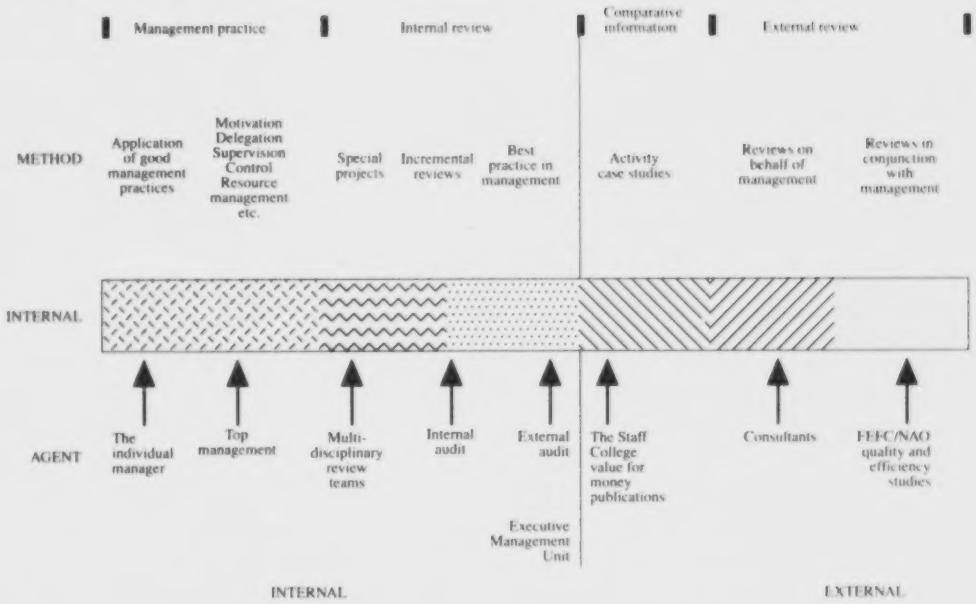
Phase two: activity analysis

Formally recognising that the college will review its commitments, charging officers with that task and setting down their terms of reference helps to creates a general framework. It is the next stage – analysing and questioning activities – that gives the process a tangible form and a strong sense of reality.

The identification of possible savings can be approached in a number of ways. One starting point for a selective review is thus the overall scale of heads and fields of expenditure. Some of these, however, may need to be sub-divided as elements of large areas of expenditure may relate more easily to areas of decision-making than composites such as teaching staff costs. The college budget can be scrutinised line by line using either a zero-based approach or a more limited range of options such as the examination of the implications of reductions of five, 10 or 15 per cent. Alternatively or alongside this, can be set evidence of pressure from students and other clients, calls for additional resources from within the college, consideration of areas of spending which have stood without review for a number of years, or a critical examination of those areas of activity where there are indications of surpluses. The latter are unlikely to be too self-evident lest questions be asked about why action has not been taken sooner.

The financial statements of past, curent and planned spending lend themselves to review through the generation of ratios and comparative data. The 'bottom line' in terms of historical, current and projected levels of expenditure related to income levels are clearly crucial. Within these overall positions there will be a range of under and over shoots of the projected levels of spending. Whilst it cannot automatically be assumed that excess expenditure is the starting point for cost reduction neither can it be ignored. The ratio of pay to non-pay costs will also give some indication about a key aspect of the gearing of spending. Increases in creditors and debtors also need to be examined as they can assist in alleviating current

Figure 6: The performance review continuum



Source: **Key issues in getting value for money.** CIPFA 1987

pressures. Income received and due in relation to targets will primarily relate to projected student recruitment. Colleges have traditionally been stronger at projecting expenditure to meet planned need than analysing and adjusting to actual enrolment levels. In the absence of strong reserves it will be all the more important that colleges improve their management information base in relation to recruitment and cashflow.

Steps taken to analyse the financial data base will need to be set alongside a review of activity costs. Performance measures such as unit costs and student:staff ratios for programmes give comparisons of college activity measured at the input stage. Student retention and qualification data will have increasing significance as it becomes funding-related and will need to be included in future planning. External comparisons are generally only available at present at the macro level of the whole college or faculty grouping. The range of overall and academic staff costs given in the Annual Monitoring Survey data points to colleges with operating costs 20 to 25 per cent above the mean, and to colleges with similar levels below that figure. Decisions are, however, normally taken well below this and the sample of A level programmes provided in post-16 institutions studied recently by the Audit Commission had unit costs ranging from under £1,000 to almost £7,000 (Audit Commission/OFSTED 1993). The use of internal comparators may or may not produce such dramatic results but it will highlight the need to compare like with like, or at least to weigh important differences. When course/programme costs are known the key comparison needed, however, will not be with other programmes in or out of college but with the income they generate. Other ratios such as management or support staff costs to students or academic staff, or the balance of staff to non-staff costs can also provide illumination when searching for opportunities but interpretation will call for internal target-setting.

Activity cost analysis, a modified approach to zero-based review of expenditure codes and the development of financial ratios offer key starting points to activity analysis. They are, however, somewhat abstract and impersonal in their approach. Brainstorming on the other hand can be a way of undertaking the opportunity search which has immediate shape and a clearer identity with individual managers. Experience from earlier years and from other colleges can provide starting points. There is as yet only limited literature related directly to colleges (see, for example, Kedney and Davies 1993) but work undertaken in the local authority sector in the 1980s may be helpful (CIPFA *et al.* 1982).

The shift from resource acquisition and activity development to seeking cost reductions which will include cutbacks is likely to be a major turn-around for some managers. A radical change of direction will be perceived as unprofessional and

threatening, it therefore needs to be led with considerable skill and care. An open invitation to comment on any aspect of college expenditure may lead to a deafening silence, a cartel focusing on damage limitation or individuals pointing every which way except to their own sphere of activity. The senior manager leading the process has to ensure it is seen to be serious, reasonable, necessary and as far as possible fair. If this stage is to be progressed with the speed needed to develop serious momentum it will also need to be scheduled as a priority call on internal secondment.

Phase three: option assessment

The product of the activity analysis and opportunity searches will be a diverse list of areas where cost reductions might be sought. They can be mapped in a variety of ways, each providing a different perspective. Classification by activity in terms of direct educational programmes and support activities can be overlaid by the fundamental and discretionary groupings. More traditionally, recourse is to major clusters of resource input such as staff, premises, equipment and materials and other costs (for examples, see Appendix 2). However the catalogue is drawn up, the next stage is to move from a long list, however organised, through option assessment to a short list.

Estimates of cost benefit will be needed as the basis for selection. The original terms of reference give a starting point, though it has to be recognised that activity analysis and option assessment will provide acid tests which may lead to some measure of revision. Factors such as the scale of the targets, the timetable for their achievement and the political and managerial context will be influential. These will play a part in setting what the college feels capable of managing against what it believes it needs.

Some options may be judged to carry significantly higher lead/implementation costs than others, they may however also be areas of the greatest projected savings. By determining both loss and gain for each option over a four or five point scale set by the college it is possible to locate the projected outcome on a cost benefit matrix. In doing so the college may choose to focus solely or primarily on financial implications or it may wish to endeavour to balance a wider range of factors. Those then identified as calling for low cost for achievement and gaining high benefits will clearly be a higher priority for action than those where the saving is small but the loss/cost to the college would be significant.

Determining the degree of loss, or possibly gain, to the college of a particular course of action will obviously require qualitative judgements to be made by managers

charged with the delivery of college services. The dangers of protectionism clearly have to be recognised but making hard choices is the professional role of the educational manager, and it is not one which can or should be abdicated or transferred to others. Costing and pricing on the other hand might be thought to offer objectivity but as Warner warned:

> The calculation of a full cost fee involves the imagined vigour of the scientist applying a theoretical model and the supposed flair of the artist.
> (Warner 1984)

Middle managers in college are often well versed in the control of resources in terms of time, space and facilities but are generally less familiar with their translation into cash terms. Their awareness of the former may be fairly specific – middle managers are familiar with timetabling academic staff and teaching rooms but are somewhat less aware of such inputs as employers' on-costs and the resource inputs collectively described as 'overheads'. How these are accumulated, the needs they serve and, perhaps more significantly, how productivity can be raised will call for a rapid learning curve for some managers. At the same time it may also be necessary to distinguish between absorbed, direct and marginal costing techniques as they will relate to the search for cost reductions just as they do to pricing policies for other purposes.

Phase four: option selection

The development of what should by now be a lengthy list of possible ways of raising productivity and reducing costs, together with assessments of their advantages and disadvantages, brings the cost reduction process to the point of selection. Managers are likely to be familiar with the processes whereby the college defines the role and place of a vacant post, seeks applications and moves through a long list to a short list and on to an appointment.The identification of cost reduction opportunities starts differently as few volunteers are likely to present themselves, hence the significance of the opportunity search, but thereafter certain parallels can be drawn. Criteria will be needed if the selection panel are to sift the options in terms of 'possibles', 'doubtfuls' and 'rejections' in order to arrive at a long list. They will also serve to point up those items which need to be referred back for managers to think again, or for new options to be evaluated and brought forward.

The purpose of the option selection stage is to identify and take forward those areas of change on which consultation will take place. They therefore represent the best endeavours of those charged with the task to date. In designing the machinery at the

outset decisions will have been taken as to whom the individual task managers and teams will present their findings and recommendations, and who will have the delegated powers to act. The option selection process may therefore be one of sharing and bringing together work in hand by the senior management team to agree to overall framework or it may be a presentation of options to a panel or a committee of members of the corporation and the executive.

Assessment and selection is clearly easier to put into operation where there is some measure of choice, be it between different areas of savings or different degrees of change in particular options. Arriving at the former will not be easy as it the natural instinct of those who have served the college and found achievement through building up to the present position to seek its preservation. Even where managers have come to terms with the rationality of change there will be a desire to control or influence the scale, direction and pace. The process will demand that some managers question the unquestionable: identifying more than the minimum will be seen by some as offering hostages to fortune. The sheer magnitude of the exercise itself may seem to preclude its expansion to generate choice and yet by paradox it is in such circumstances that choice may support greater sensitivity.

A balance must be struck and restruck between pursuing the benefits and gains of choice and the pain and stress that will be demanded by the processes leading up to this point.

The objectives will be particular to each exercise as it is undertaken by each college and will change over time. It is likely however that the criteria used for short-listing options will include a selection from the following, weighted according to the need:

Criteria for option selection:

- the volume of expenditure currently being incurred;
- judgements about technical demands and management feasibility;
- the quality of the information base, including comparative data;
- any lead investment required;
- the payback period;
- the speed of implementation/timing of the return as savings;
- early successes or potential failures;
- the spotlight, e.g. audit or inspectorate findings;
- political interest, e.g. members of the corporation or trade unions;
- the projected net scale of the savings;
- the projected impact on morale;
- judgements about the pain/gain balance.

Some elements are easier to define and deliver than others and a balance will need to be struck between the apparently possible and the desirable, and their converse. In particular it will be necessary to counter any unintended messages such as suggestions that obscurity, lobbying or crying wolf may offer any protection. Care will also have to be taken in arriving at judgements on the quality of the evidence that is available as managers will approach their task in very different ways.

The outcome of this stage should be a short list of options underpinned by an overall implementation plan. There will need to be a willingness to accept variations in the quality of the stages of preparation but not of any lack of development being used as a means of excluding any proposal from going forward. Rather, there should be a clear statement that in such circumstances the preparation of the option or options will take precedent over any other activity. If a choice has to be made at this point there is an argument for carrying forward less clearly defined options as a matter of course. Exposure through the consultation phase that follows can be expected to sharpen the focus and improve the planning base in ways in which rejection or referral will not.

Phase five: communications and consultation

Clearly internal communications cannot wait until the short list has formally been determined as the college will be rife with rumour long before this phase is reached. Colleges will have established, though differing, methods ways of keeping colleagues informed of key issues. The focus here is on moving on from an initial statement of the college's review process and a commitment to communicate to actually doing so. The form that the process will take will be determined in part by law where possible redundancies are under serious consideration, but more particularly by the operating style of the college. Staff meetings addressed by the principal, regular newsletters and team briefings cascading the discussions of the college management team and governing body meetings provide opportunities for dissemination. Care will have to be taken that in passing on messages exaggeration and inaccuracies do not creep in and become increased. At the same time the trade union branches will also call meetings to provide feedback and to gather advice, opinion and direction.

Radical change comes as a shock to the system and will raise issues of confidentiality and timing. It is, however, difficult to see how a substantive review that is adequately informed by data collection and analysis cannot become a cause for concern. Colleges differ substantially in their management and communications styles and will approach the tasks in different ways. The processes outlined so far can be expected to generate a challenge that should not be under-estimated, and one

that cannot be seen as being discretely located at a point in the plan where management decide to communicate their ideas and listen to responses. This is not to say that a formal commitment to do so is any the less important, or that summary reports should not be prepared and made available to staff as well as to their trade union representatives. Team meetings should be called, and probably recalled in some instances, but it will be necessary to be clear at the outset that prevarication and delay is not possible. Short notice, inadequate disclosure and insufficient time to respond to critical issues are common criticisms as colleagues come to terms with the reality of change. Confirmation of the need to act in good time can only be expected to add to the frustration at least for some, but the cost of deferment needs to be known and explained.

If the process is one of consultation it will be characterised by the following:

- discussion will occur when the proposals are still being formed;
- there will be sufficient explanation and reasoning to allow intelligent consideration and response;
- there will be sufficient time to permit such consideration and response; and
- the product of the feedback will consciously be taken into account before finalising the proposals.

Consultation involves an intention to listen as well as to inform. However, as the judgement in a leading industrial tribunal case confirmed, whereas there was:

> ... a genuine invitation, extended with a receptive mind, it matters not that it is accepted, no advice is proffered, or if proffered that it is acted upon. (Agricultural Industry Training Board v. Aylesbury Mushrooms Ltd. 1972).

Consultation differs from communication or telling staff of progress to date or decisions taken, to negotiation where two parties bargain to reach a jointly acceptable solution. The latter underpins collective bargaining and takes all or part of the process into the college's industrial relations machinery. Line managers must be clear in their approach, which in all likelihood will be a mixture of all three elements but each used knowingly and to achieve the intended outcomes.

The results of consultation and negotiation will need to be weighed by those charged by the corporation with the powers to decide on courses of action. Major amendments as well as fine tuning can be expected and may generate commitment and ownership as well as additional work. Hence the expectation at the planning stage has to be that this one element of the process will take as long as all of the preceding parts added together. It is not only an extension of those involved from a small team to the whole college but also a sharing and coming to terms with the beginnings of radical change.

Phase six: implementation

Implementation will probably be a progressive phase that may, in some areas, have started before the overall process has progressed to stage six. This is most likely to be the case where some measures are considered uncontentious or where the pressure of events is such that delay cannot be afforded. Further it is unlikely to be seen as a single event, though the big bang approach may be necessary for major elements which are dependent on a single key decision. The former will be reached where, for example, it becomes necessary to implement redundancies or release college buildings. The latter is recognisable as perceptions and actions away from the pursuit of growth or the maintenance of the status quo to a setting of cost reductions alongside the continued development of the college.

There is a need to carry the formal management processes outlined above to their logical conclusion, to set out the key elements, allocate the line management responsibilities and set benchmark review dates for the specific tasks that have been identified. If cost reduction strategies are to be more than a one-off response to a particular problem it will also be necessary to examine ways in which the operating systems of the college can be changed, and be seen to be changed. Some managers will quickly recognise that the best form of defence is attack and be seeking ways to shift resources from where they are to where they can be used to better effect. Others may need both formal and informal management development to help them balance their responsibility and accountability for resourcing the educational process alongside its design and development. The whole college is, however, greater than the sum of its parts and there will be a prime need for the institution to review its operating practices, its information systems and reward mechanisms to support rather than be neutral to or even inhibit change.

The first formally structured approach to cost reduction across the college will provide a unique learning opportunity as well as a major impact on management development. Certain areas of change are predictable, the information systems for

example will almost certainly come under severe criticism for failing to provide analytical data on key issues when it is needed. The process will throw up new questions or ask questions in new ways, not only of the financial system but also of the delivery of educational programmes and the take-up and efficient use of human and physical resources. The stresses placed on the formal and informal communication systems will become apparent, especially where rumour takes over from management information. The skills of managers as leaders and negotiators will be tested, both in the formal settings and, at least as important, in the day-to-day operational context.

The overt elements of implementing the planned changes and the monitoring of the educational and financial outcomes will clearly need to be set down and processed. Managers and their colleagues will need to be kept appraised of progress, albeit if only to be re-assured that the programme is on target. A post-implementation review will, however, also need to look to the less formal elements of change and assess whether the college is better equipped to meet radical change again in the future through the lessons which have been learnt.

Chapter 3

Opportunity analysis and selection

The development of the cost reduction stratgey has to recognise the major importance of each of the six key elements outlined in the previous chapter, any one that is neglected or passed over quickly is done so at the college's peril. There is nonetheless a natural tendency to want to move quickly to where the action is seen to be. Few institutions are likely to have spent adequate lead time considering the potentially dire consequences of stringency, the natural tendency being to be otherwise very busy and under pressure, or to believe, like Mr Micawber, that something will turn up. The selection here of one element of the model for in-depth consideration should not be seen as a suggestion that it is of greater significance than any other. Rather, it is an endeavour to respond to the initial desire to be seen to be acting by tackling what is often the clearest and most tangible element, that of the opportunity search. To be effective, however, it needs to be linked back to an examination of purposes and priorities and the considered design of a management approach that identifies key tasks, key players and critical benchmarks.

The expenditure incurred by colleges is both extensive and diverse but it can be brought together under three broad groupings relating to people, to property and to goods and supporting services. For the purposes of this report the first is further subdivided to separate management from other costs in order to explore ways of raising productivity and the achievement of cost movements through staff changes. The recurrent costs relating to premises and associated services represent the second largest group and are therefore reviewed next as a potentially significant source for cost reductions. The balance is generally made up of a wide range of

heads of expenditure, many of which in themselves are small but which are substantive when taken togther. Furthermore, they often include those where experience is the greatest and where economies are initially the least sensitive when starting the process of review.

STAFFING COSTS

Reviewing management costs

Colleges have long carried substantial management costs that seem to stand unquantified and unquestioned, until now. Incorporation transferred and increased these costs to colleges; perhaps nowhere more so than in relation to the management of a range of additional functions. The high profile of salaries set for directors of finance, administration and human resource management have been accompanied by less exulted posts relating to auditing and the college estate. It seems to matter not to some that these functions were already performed (in part at least) by the vice-principal and the chief administrative officer. They now add to such activities as staff training and marketing in the formation of a raft of management more akin to private sector organisations. These posts are no longer being used to find homes for displaced academics, nor are they always set at middle manager salary levels. Rather, they are designed to draw in competent professional staff from the competitive world outside local government. The outcomes are more management posts at increased cost and with higher profiles.

Concern at new power bases, regulatory structures and perceived levels of investment have supported expressions of concern if not downright criticism. At a time when delayering is evident elsewhere, colleges are adding rather than subtracting layers between the chief executive and the chalkface. The danger of the 'supervision culture' may be growing in colleges. Rosamund Thomas, in a study of the Civil Service (Thomas 1983) described the position found in the mid-1980s as one where direction and objectives were unclear and organisational levels were found to be devoted to the definition, redefinition and interpretation of direction. Top public servants were seen as needing to have hands on all details in case of challenge. A not dissimilar position could be found in local government and now in some colleges where the management team and the executive meet regularly to share information and ensure consistency.

The complexity and speed of the shift to corporate status has been a major challenge and colleges have had to become proficient at handling a range of new and critical

tasks. The funding council and the corporation expect to be served effectively, particularly in relation to finance and the efficient use of public resources. Given the need for responsiveness and the centrality of manpower and capital assets, changes have had to come if the college is survive and grow. What is less than clear, however, is how far this position may be a short-term bulge. If so, colleges too can look forward to reducing their management costs by delayering and reducing their operating practices once the initial phase has passed. It is now too late to warn of the danger of staffing up to the peak in periods of change as appointments have been made. On-going need after the rush to become corporate will change and may be expected to reduce, that is unless Parkinson's Law prevails and work is found to fill the time made available by the enhanced management structure.

A number of arguments can be marshalled for starting any review of opportunities for savings by examining management costs first. It may be important that the lead is seen to come from the top rather than be a response to those who perceive themselves as under threat from a protected minority. It is clearly a powerful message that the exercise is not only to be taken seriously but that economy, like charity, will begin at home. A critical starting point has to be a clear definition of posts and costs, for whereas it is relatively simple to point to a number of full-time appointments this does not represent the totality of the input. The numbers of postholders above the departmental level are nevertheless substantial, the levels of excluded and abated posts reported to the Annual Monitoring Survey for 1991 – 4,068 in England alone. This is, however, a serious under-assessment of the resources committed to co-ordination and leadership in college. To this has to be added posts whose salaries are not on the academic scale, new college-based jobs created since that time, those at the departmental rather than the institutional level and the management duties which form part of rather than whole posts. Not all management tasks are carried by holders of full-time posts dedicated to such functions. Many are undertaken by lecturers and administrators on promoted salaries with abatement of their other duties. This supports one of the key characteristics of colleges, namely the wide distribution of management responsibility thus maximising involvement and participation.

In order to make an assessment of costs where duties may be split (for example, a head of an academic department who also has some teaching duties) a somewhat arbitrary line will need to be drawn between production and co-ordination functions. This can perhaps be illustrated by reference to the contractual hours of academic staff by using the old marking and preparation approach once adopted for national pay and conditions bargaining purposes. In expressing the contractual load of a lecturer it was argued that one class contact hour is underpinned by 30 minutes

support time, thus a main grade lecturer teaching 20 hours per week was fully committed for the contractual week and additional duties were 'voluntary'. By simple arithmetic it thus possible to arrive at a college-wide calculation of contractual input for activities other than teaching and teaching support undertaken by academic staff. Using this approach to exploring staffing input levels it is possible to arrive at an assessment which can be used for initial review. To this would then need to be added related elements of reduced class contact time and the input of staff on other salary scales and conditions of service. In a small to medium size college the FTE (full-time equivalents) total could thus be seen to be of the order of 30 posts, all on senior salary scales.

Having calculated FTE totals and costs it but a small step to relate such figures to student numbers and teaching and support staff to develop performance indicators. In the first instance ratios and unit costs are likely to be limited to the college under review as comparable data are not available. This may not necessarily be a major disadvantage as attention will need to be focused rather on the internal value of the resource input, its productivity and contribution to the college. External comparisons may nevertheless be helpful in identifying starting points when like is being compared with like and the pooling of data between colleges could prove useful. The focus, however, will have to be on the particular needs of the college now and in the future, and the assessment of worth for the current level of investment. Evidence of input beyond the anecdotal, such as diary analysis, can help to support an assessment of the current workload. Unlike teaching, where student participation is a proxy for productivity and duplication can be a good thing, output here is less clearly defined. Lateral thinking will be needed to assess the impact if activities are stopped or seriously curtailed. It will be easier to demonstrate equity of approach if a value for money analysis has been undertaken at senior level first, however difficult that might be.

In any review of the efficient and effective use of managerial time references can be made to such apparently simple remedies as reducing the number of meetings, or at least improving the ways in which they are currently run. To this can be added a reduction in the number of committees and reports, and a major cut-back in the duplication of paperwork, including memoranda and forms which seem to duplicate each other to no good purpose. Clarification and simplification of the spans of control can also serve to both improve effectiveness and increase efficiency. The reduction or removal of detailed reporting and of the division and duplication of supervision will give not only greater clarity but also greater motivation. Pointers to review can be identified by mapping the current spans of control and comparing the findings with guidelines on volume (such as a ratio of 1:7–10), and tracking

single or multiple points of supervision. These are simple to propose but need discipline to be effective. A review of diary evidence may reveal imbalances between professional duties and simple clerical and manual tasks. Small investments in support staff, equipment and improvements in the working environment can raise productivity as well as morale.

Steps such as the re-assessment of administrative back-up and the introduction of electronic mail point to a need for investment rather than savings. Taken together they may also highlight ways of releasing management time which may then be used more profitably. At this point it becomes possible to examine increased productivity and savings be it through the partial or complete loss of individual posts. This may be achieved by improved efficiency, recognising the redundancy of some tasks, transferring activities to others or contracting out certain functions. The outcome may be fewer management posts and/or the transfer of elements of senior staff time to teaching duties. At a more radical level of re-organisation a tier of management may be removed. Of itself, however, the review of management staff costs will only focus on part of the total academic salary bill, the greater element of which is contractually committed to the delivery and support of teaching duties.

Raising the productivity of academic staff

Any review of college costs will immediately focus on academic salaries for even when management activities are removed from the equation, the balance still commonly represents a half of gross expenditure. Any serious analysis of cost reduction must turn to matters related to the productivity of lecturers. The national debate of the Silver Book provisions versus the new contract may superficially offer a way forward but it is an over-simplification of a complex set of issues. In any event, translation from fine words into deeds will have to be undertaken at the level of the individual college and its operating units. The 1975 agreement which is the basis of current operating practice was drawn from the then existing conditions. Some of the most restrictive practices that are extant today owe more to local interpretations than they do the formal, national procedure. The challenge of managing change is thus neither new nor national but is very dependent on local leadership and delivery.

It can and will be argued that staff morale and commitment will be critical in meeting the challenges of cost reduction and maintaining the quality and volume of service. This is unlikely to be disputed but there is little evidence that peace at any price (or at least at what can be 'afforded'), even if it is possible, will be effective: hard decisions are expected. What is likely to be critical to success is the clear and shared recognition of the need for investment and solvency in setting the scale of the

challenge. The identification of choices and priorities, clear consultation and explanations based on firm leadership and direction can also contribute to success.

Option analysis will need to assess and take account of opportunities using existing staff and within existing contracts as well as looking to an idealised model for the future. From these two it should be possible to direct progress in the short-term as well as assessing potentially radical alternatives. The latter, if it is to be the medium-term goal, will point to one of two broad options, or a more complex mix of both, i.e. a gradual movement based on new appointments on new terms and conditions and/or changes to existing contracts. Which route is chosen will depend on the college's goals, its understanding of its options and a clear knowledge of where it is starting from. For example, recent and projected staff turnover and potential early retirements will inform decision-taking. The best fit to purpose will balance financial gain, skill mix and experience and staff morale in relation to short-term criticality and longer-term need. Movement over time, or the lack of it in a required direction, will demand a revisiting of the range of options and consideration of the pace of change.

There is a temptation to focus on lecturers within present staffing structures, almost to the exclusion of all other staff. An argument has already been put for starting with managers; in choosing to concentrate here on the teaching input there is no suggestion that business support staff levels and activities should not also be reviewed. Rather the maxim used by John Banham at the outset of the work of the Audit Commission of 'picking the ripest apples on the lowest branches first' has been adopted here too. This is not to accept the premise that colleges are under-serviced in the non-teaching staff areas without question; productivity rises can and should be found and are addressed later. Premises-related staff are considered in the section on property costs; administrative and education support staff inputs need to be similarly reviewed by each college.

The Annual Monitoring Survey collects and publishes data in relation to three key decisions which determine major elements of planned productivity of lecturer input; average class sizes, course lengths for full-time students and the timetabled commitments of lecturers. The findings are grouped by college size and type and the mean for FE and tertiary colleges suggests fairly uniform levels of operation across the country. A review of the ranges at the faculty group level, however, points to wide variations, even when outliers are excluded (see **Figure 7**).

In very simplistic terms, if the colleges currently operating around the national mean were able to achieve efficiency rises to the points where colleges operating at the

upper quartile are now they could accommodate their target growth in student numbers and have spare capacity without changing contracts.

Within an individual college one way forward would be to list in rank order the sizes of timetabled teaching groups, compare the college average with that identified for colleges across England and to examine those classes in the lower quartile or decile for the college. Some results will be the outcome of the operation of policy decisions and planned investment, be it for special educational needs, the maintenance of shortage subjects or new or declining programmes. Others may point to the combination of groups, different delivery methods or even cessation. A similar review of the upper quartile may also be triggered when retention rates and qualification levels are correlated with initial teaching group sizes. Analysis of the length of full-time courses may also be needed to pick out those where income meets commitments, where the college has chosen to invest taught time beyond the mean, or where comparative analysis suggests that reductions should be considered.

The average lecturer hours (ALH) return can be compared with the provisions of existing contracts, reasons for differences identified and action taken. **Figure 8** shows the timetabled averages by grade over an academic year at national level. Here, as with all AMS data, the statistics relate to what was intended at the time of resource commitment, it does not identify actual outcomes.

Figure 7: Average timetable decisions (1991)

Decision area	*Lower range*	*Mean*	*Upper range*
Average class size	c.7.5	c.15.5	c.25.0
Average lecturer hours	c.15.0	c.18.5	c.22.0
Average student hours	c.28.0	c.22.5	c.17.0

Figure 8: Average lecturer hours by grade (1991)

Grade	*Average weekly hours*
Head of department	4.4
Principal lecturer	11.4
Senior lecturer	15.5
Main grade lecturer	18.9

The data are collected in college and can be disaggregated down to operating unit and individual level. The starting point for action must be any light timetabling picked out at the planning stage when account has been taken of contractual reductions. With provision for averaging, the differences between planned input and out-turn should not any longer be as major as they once were. The data source will need to be checked to identify accuracy and completeness and here again an audit of actual practice may be appropriate. A scrutiny within existing contractual provisions will be needed to catalogue and examine *'class-contact equivalent'* duties which may have been incorporated in the AMS return. For example, how far it is either necessary or cost-effective to have lecturers invigilating examinations or supervising all work-place activity is open to review. A fourth line of enquiry can be the levels and uses of reduced class contact time: remission is allowed for in existing contracts but excluded from the AMS staffing return. A further illustration of variation and a possible option for change is that of local custom and practice in interpretation of any rules. Inter-site travel time and tea breaks taken as class-contact time may not be as prevalent as they once were but it may be worth checking that the change is uniformly operated across the college. At the whole college, departmental and sectional levels there is scope for change which can bring about substantial rises in productivity from existing staff within existing contracts. It will, however, call for managed and monitored change if it is to be consistent and persistently maintained.

It can be argued that if colleges were to be able to start again with a clean sheet on which to design their investment in staff they would not select what they now have in terms of numbers or types of posts. What they would seek to have could be mapped out as one option for five years ahead as part of the scenario development phase of the strategic plan, others might lie between such a position and the status quo. The translation of the preferred human resource strategy to action calls for target setting and selecting ways of managing change. Reference has already been made to business support staff and it is clear that changes will also come in corporate and curriculum management. It is, however, at the teaching/instructor/supervisor interface that the greatest volume of change can be expected. This may take the form of the introduction of what for many colleges will be new (or arguably for some a return to old) grades and working practices for existing as well as new posts. The present distribution as well as the relative proportions of learning and corporate support appointments can also be expected to change, the former becoming more than additional staff in the library and the latter somewhat different from the present role of the technician. What is as yet unclear is how far this will be led by curriculum delivery needs and how far by financial or simply pragmatic considerations. The fourth area, that of administration and institutional services, is already shifting its

balance between in-house and contracted services and this can be expected to continue.

Raising the productivity of administrative staff

A traditional approach to review recognises the four major blocks into which the college establishment is usually divided: academic, administrative and clerical, technician and manual staff. The first has been further subdivided and addressed in the observations made so far. The second group covers a range of services such as the registry, typing and reprographics, purchasing and personnel as well as clerical support to the managers and teaching departments. Given the history of stringency over posts and grades it is unlikely that a review at the establishment level will provide substantive economies in many colleges. It is nevertheless possible that working practices are not as efficient as they may be due to under-investment in equipment and training as well as the long established practice of maintaining redundant tasks. The latter has arisen due to a number of factors, from a failure to audit need to duplication built up over the years. An activity analysis of paper flow, the volume of transactions, the degree of complexity and the levels of duplication of effort may highlight potential for change. The setting of benchmark standards using internal good practice and calling on external comparators for office administration will give further rigour.

One simple starting point can be the collection and analysis of forms which proliferate to meet specific needs. It is commonly claimed that the data required for each are called for afresh, leading to small elements of new input and large volumes of repeated returns. This then passes through many hands before its life cycle is completed. Feedback to the originators of the data can be limited and late, or non-existent. How far the form is needed at all, how the call for information can be limited to that which is not already available somewhere else, and how its processing can be minimised are not however always questions thought to be in the best interest of those currently processing the paperwork.

Involving staff who actually do the work in seeking ways of doing it more efficiently is clearly attractive as they know the current processes best. The prospect of office automation and the development of critical masses of activities for both the efficient use of people and technology will however be threatening. The outcomes could include the 'out-placement' of small or highly specialist activities to external agencies and of people. The spectre of job losses may be less real here where retraining and redeployment to unmet needs can be implemented immediately by colleges but this will need to be stated and demonstrated consistently.

Raising the productivity of education support staff

The third group of college staff, the education support staff who operate as technicians and classroom, kitchen and laboratory assistants, are more directly related to the curriculum – or they should be. Few local authorities had overt policies for determining staffing levels and of those that did they were not always kept abreast of the changes in the curriculum and its delivery. The national conditions of service codified in the 'Purple Book' (which also covers administrative staff), gave guidelines on the gradings of posts deemed to be within its scope. How far it is appropriate for a technician to be employed to mix mortar and carry bricks or act as storeman, or that such posts should be graded by the notional level of study of the students may also be open to question. Distribution and grade issues are significant but their resolution may lead to greater spending, although possible areas of economy can again be identified. The pattern of the contractual year does not always fit the academic year and the courses such posts are designated to support so improvements in efficiency may be sought through rescheduling. In terms of the working week any overtime paid at rates above the hourly equivalent in the basic salary should be reviewed against time off in lieu. Where the operating year of the college is less than that of the staff contract, some measure of averaging and/or fractional but permanent contracts (term-time only, for example) could be considered. Similarly, where the field of activity is specialist but the demand is for less than a full-time post permanent part-time employment can be systematically explored as an option.

The levels of the administrative, professional, technical and clerical (APT and C) staff outside the central services are generally small in number but relate to such important college functions as the library and student services. Again, analysis may point to the need to spend more rather than less, particularly as the first is given increased prominence by its developing role as the engine of support for student learning, and the resource implications of the latter become clearer as a part of the FEFCs' selected approach to funding colleges. Notwithstanding this there may again be opportunities to examine take-up levels and opening hours as ways of initiating a review of efficiency.

Raising the productivity of manual staff

The manual employees of the college again fall broadly into three broad groupings: premises-related (who are considered later), cleaning, and refectory staff. Cleaning standards at one time followed formulae calculated using weightings agreed at the regional level between the local authorities and the recognised trade unions. As an

early Audit Commission study (1984) showed, these varied significantly, and actual practice varied even more. Where competitive tendering has been applied to college cleaning it is possible that the pressures of the market-place have had some impact. Where it has not, consideration may be given to such an approach, and even where it has there may be benefit from looking again at such issues as cleaning frequencies, the use of barrier matting and improved mechanisation. Similarly, even though legislation exempted college refectories from compulsory competitive tendering, privatisation may be one option to be considered. Here again some investment in modernisation can be set alongside a review of working practices, staffing and service levels.

Student:staff ratios and unit costs have their critics but both provide some indication of performance and give comparative data in relation to non-academic staffing levels. Further, by setting targets which take account of relevant factors such as curriculum mix they can also be used with some sensitivity. As yet, however, no such data base is available for the major components of support staff. Decisions about manpower levels seem to owe much to the historical position and incremental change. The annual reports of the former chief inspector used to make reference from time to time to support staff levels and seemed to indicate that for the majority of colleges in the 1980s difficulties were local and specific. Other than in expanding areas such as micro-electronics, computing and word-processing, few colleges were reported to be seriously under-staffed. It may be therefore that the lower quartile in terms of student to support staff ratios and unit costs may provide a starting point for review of overall levels across a college for in-house servicing. Where competition in the market-place is possible and deemed desirable it may also serve. In both cases, however, there is a primary requirement to determine need in terms of quality, quantity and the focus of the support service.

Rationalisation

The interpretation and definition of the detail of change in and between the major components of the college establishment will be matters for the independent corporate college to determine, and can be expected to differ from institution. In terms of contributions to the college exchequer, however, it will be the curriculum delivery and supervision areas that will be the most significant. The current confrontation concerning the terms of the CEF (Colleges' Employers' Forum) contract for new appointees and promotees highlights a number of potential changes, but not all. It has also to be recognised that the proposed format is not a national model but a set of recommendations to individual colleges. If introduced for new appointments only it will further extended differences between working colleagues in the same institution and department. The former lecturer grade II and

senior lecturers (Houghton), for example, carry forward luggage from the past that sets them aside from their colleagues.

If a radical approach which places all staff on the same basic contractual conditions in terms of hours and weeks of employment can be accomplished a job evaluation exercise will give a systematic means of determining remuneration. In such a shift the traditional lines of demarcation between lecturers, technicians, administrative, library and manual staff will be seen as anachronistic. The introduction of placement co-ordinators, workshop supervisors, resource-based learning facilitators and artists/musicians in residence, on a planned and systematic basis, will require careful reconsideration of the professional role of the lecturer. It can remove some of the more extreme anomalies found in job evaluation studies but in doing so raises new challenges. A clear and structured analysis will provide a basis for review of the rewards structure that is likely to be best served by a single pay spine approach such as that already used in college for APT and C staff. The associated use of a fixed or limited number of points instead of an extended incremental scale may help to balance costs and relate payment to the job in hand rather than time-serving. To argue that it unreasonable and/or unfair to press for radical changes in both remuneration and conditions within current pay constraints is understandable. It clearly worsens significantly the position of many existing members of college staff. It is, however, questionable how far the present position can be judged equitable and effective. Furthermore it may offer a clearer way forward than apparently ad hoc movement and fear of uncertain change. (*For a fuller account of job evaluation as a means of rationalising all college pay scales into one, see Saunders 1993.*)

It is not the purpose of this report to address design issues for a new contract or to advocate or oppose new types of appointment, they are matters for debate elsewhere. However, the introduction of a longer working week and year and new grades could contribute to a savings/productivity package and will need to be weighed against other options. If the professional role of the lecturer is to be sustained and quality enhanced account must be taken of the diverse workloads of many staff. The future development of the college is unlikely to point to any levelling off of the more extensive demands on the busiest of staff. As with the approach to re-examining management need and response, duplication of effort, removal of redundant elements of 'bureaucracy' and a transfer of some activities to other posts may prove fruitful. The levels of overtime currently worked by some lecturers, both paid and unpaid, would seem to support the view that the existing weekly contractual ceilings on class contact can be reviewed. The introduction of reasonable flexibility into working practices by new contractual provisions and

better or more effective management at the local level will also contribute. The management of major change will have to relate job demands to rewards in ways which can be delivered by college. Further, they will need to be seen to be equitable. Staff have to be capable and committed to such changes, or at the very least, to recognise that these changes feel fair in their application if they are to have any chance of success.

It is idle to speculate how far individual elements might deliver savings when what might be deemed necessary, and potentially available in the near future, is radical rather than ad hoc change. As experience in the 1970s and '80s indicated, national and local negotiations do not always equate exactly with subsequent practice. The costings of potential contributions may therefore need to recognise likely slippage. Judgements will need to be struck about the scales of efficiency rises and cost reductions which take account of means and degrees of delivery. It will also be necessary to recognise that what can be measured numerically for assessment is likely to be as much an art form as a science. In broad terms, however, translation into operation depends on staff turnover, airing opportunities for new appointments following from growth, changing existing contracts, or any combination of the three.

MANAGING STAFF CHANGES

Prior to incorporation few local authorities or their colleges adopted radical means of achieving savings in the staffing budgets. The first and easy step tended to be a freeze on vacancies, sometimes followed by re-instatement as cuts fell elsewhere. The next stage was typically the dismissal of part-time staff (sometimes non-teaching as well as teaching) usually through the non-renewal of contracts. Should this not prove adequate then overtime was cut, temporary contracts were not renewed and resignations were sought by offering early pensions with substantial enhancement to the most experienced staff. Scale varied from institution to institution but carried over three or four years the cumulative impact could be significant. The impact on the staffing mix and the curriculum was not always of the highest priority when set against the need to achieve budgetary cuts.

Incorporation has put the college in sole charge and given a substantially shorter chain of command over matters relating to staff. One starting point to be set alongside the assessment of curriculum and financial need is an analysis of the data base to provide some indication of historical turnover and the numbers of staff near retirement age. What is often less clear is the inherited position in terms of staff with

better or more effective management at the local level will also contribute. The management of major change will have to relate job demands to rewards in ways which can be delivered by college. Further, they will need to be seen to be equitable. Staff have to be capable and committed to such changes, or at the very least, to recognise that these changes feel fair in their application if they are to have any chance of success.

It is idle to speculate how far individual elements might deliver savings when what might be deemed necessary, and potentially available in the near future, is radical rather than ad hoc change. As experience in the 1970s and '80s indicated, national and local negotiations do not always equate exactly with subsequent practice. The costings of potential contributions may therefore need to recognise likely slippage. Judgements will need to be struck about the scales of efficiency rises and cost reductions which take account of means and degrees of delivery. It will also be necessary to recognise that what can be measured numerically for assessment is likely to be as much an art form as a science. In broad terms, however, translation into operation depends on staff turnover, airing opportunities for new appointments following from growth, changing existing contracts, or any combination of the three.

MANAGING STAFF CHANGES

Prior to incorporation few local authorities or their colleges adopted radical means of achieving savings in the staffing budgets. The first and easy step tended to be a freeze on vacancies, sometimes followed by re-instatement as cuts fell elsewhere. The next stage was typically the dismissal of part-time staff (sometimes non-teaching as well as teaching) usually through the non-renewal of contracts. Should this not prove adequate then overtime was cut, temporary contracts were not renewed and resignations were sought by offering early pensions with substantial enhancement to the most experienced staff. Scale varied from institution to institution but carried over three or four years the cumulative impact could be significant. The impact on the staffing mix and the curriculum was not always of the highest priority when set against the need to achieve budgetary cuts.

Incorporation has put the college in sole charge and given a substantially shorter chain of command over matters relating to staff. One starting point to be set alongside the assessment of curriculum and financial need is an analysis of the data base to provide some indication of historical turnover and the numbers of staff near retirement age. What is often less clear is the inherited position in terms of staff with

represent the total picture. There are many decisions to be made when appointing someone: some of which have in the past tended to flow with little consideration of a range of choices. A number of these choices are set out in **Figure 9**. They can be used individually or in conjunction with each other to develop a new staffing meld.

Figure 9: Reviewing new appointments – options

Timescale	One-off, medium-term or long-term posts.
Scale	On-call/cover, regular hourly paid; job share; fractional/term-time only, full-time/full year.
Type of contract	Honorarium, fixed term, temporary or permanent.
Level and scale	Points on a single or multi-pay scales; fixed, limited or incremental scales for the former; the balance of basic to promoted grades for the latter; starting points.
Pay and conditions	Manual, white collar or academic, hybrid appointments or a new college devised scheme.
Employer	College or contracted out.

By taking each decision area in turn it is possible to develop a strategy which is more sophisticated than simply replacing full- with part-time staff, worsening starting salaries or flattening the promotion structure by downgrading vacancies from senior to basic grades. Institutions differ significantly in terms of the proportion of teaching undertaken by part-time staff, and often even more markedly so between departments within the same college. The highest levels tend to be in areas of fastest change, the greatest curriculum diversity and service to the non-traditional students where colleges are seeking growth, yet these have been points of first call for cuts. The irony of this is not always lost but it is indicative of decision-taking focused on the short-term, the specific and what is seen as possible by separate decision-takers rather than a mapping of a wider range of options over a longer time frame.

If colleges are to do more than introduce change piecemeal, bring about even greater complexity and create even more opportunities for equal pay claims, they must address changing the terms and conditions of existing staff. The degree to which expansion can be funded by rises in efficiency (thus paying fewer staff more for increased productivity) is an open question. The options for managing contractual

represent the total picture. There are many decisions to be made when appointing someone: some of which have in the past tended to flow with little consideration of a range of choices. A number of these choices are set out in **Figure 9**. They can be used individually or in conjunction with each other to develop a new staffing meld.

Figure 9: Reviewing new appointments – options

Timescale	One-off, medium-term or long-term posts.
Scale	On-call/cover, regular hourly paid; job share; fractional/term-time only, full-time/full year.
Type of contract	Honorarium, fixed term, temporary or permanent.
Level and scale	Points on a single or multi-pay scales; fixed, limited or incremental scales for the former; the balance of basic to promoted grades for the latter; starting points.
Pay and conditions	Manual, white collar or academic, hybrid appointments or a new college devised scheme.
Employer	College or contracted out.

By taking each decision area in turn it is possible to develop a strategy which is more sophisticated than simply replacing full- with part-time staff, worsening starting salaries or flattening the promotion structure by downgrading vacancies from senior to basic grades. Institutions differ significantly in terms of the proportion of teaching undertaken by part-time staff, and often even more markedly so between departments within the same college. The highest levels tend to be in areas of fastest change, the greatest curriculum diversity and service to the non-traditional students where colleges are seeking growth, yet these have been points of first call for cuts. The irony of this is not always lost but it is indicative of decision-taking focused on the short-term, the specific and what is seen as possible by separate decision-takers rather than a mapping of a wider range of options over a longer time frame.

If colleges are to do more than introduce change piecemeal, bring about even greater complexity and create even more opportunities for equal pay claims, they must address changing the terms and conditions of existing staff. The degree to which expansion can be funded by rises in efficiency (thus paying fewer staff more for increased productivity) is an open question. The options for managing contractual

Managing property: options

- improve the efficient use of existing buildings;
- expand the capacity of existing buildings by revisiting space norms and the notional length of the property day/week and year;
- replace inefficient property;
- franchise activities to colleges with spare capacity;
- dispose of surplus property and re-invest;
- borrow on security of existing property to acquire by lease or when applying for grant-aid.

The starting point adopted here is one of questioning the need for existing space. In doing so it is necessary to measure the current and potential capacities of the college's properties and to set these against current and projected demand. The funding council and the Department for Education have set out the standards and techniques (see **Guidance on estate management**, FEFC 1992b; **Design note 37**, Architects and Buildings Branch, DES 1984). Current practice in terms of operational efficiency is currently indicated as ranging from five to 20 square metres per FTE student. Colleges are now expected to move towards best comparable practice and for some this can be expected to pose both challenges and opportunities.

All building space incurs costs and an audit of college properties will need to be comprehensive. In establishing the primary use of accommodation, college practice needs to be compared with the DES guideline of an allocation of 60 per cent of internal space to teaching and learning. Serious imbalances will need to be addressed. The capacities of individual timetabled spaces need then to be calculated with some rigour. The resource input is the space provided for the purpose as defined by the college, not the number of work stations, the configuration of the furniture selected by the lecturer, a notional figure related to what the capacity would be if the space were really a classroom and not a hall, or any other lesser figure.

Examination of individual room use against the target frequency of 80 per cent over the 40 hours of planned availability (with an average of 80 per cent occupancy of spaces when rooms are in use), will point to under-used areas. Rank order analysis

of data drawn from the timetable can be a starting point but where colleges enjoy some measure of spare capacity it is not unknown for practice to differ from the original plan. It may therefore be wise to validate the findings by real-time studies of actual occupancy over peak weeks. By focusing on the lower deciles or quartiles of room and seat use, refurbishment, re-allocation, revised timetabling practices or release can be explored to immediate effect. It is likely that in the early stages the issues of very low levels of use for some spaces, the peaks and troughs across the working week and significant mismatches between room and teaching group size will be easily identified. Questioning the value for money of the use of highly specialised but seriously under-used space, and shifting teaching to non-traditional times such as lunch-hours, after 4.00pm and Friday afternoons, may prove less easy than, say, partitioning large rooms. These have, however, to be set against cuts elsewhere in expenditure, a loss of jobs or a failure to provide basic equipment and materials.

The more intensive use of existing building stock should be accompanied by measures to reduce its running costs. Options such as improving energy efficiency and security are picked up in the next section, the focus here being on the use of the buildings. Changes in management such as room allocations and monitoring usage, when accompanied by remodelling and refurbishment, can support relocation of activities to free blocks of accommodation. The withdrawal from annexes to main campuses, the release of 'temporary' classrooms and mothballing become options in the move to using fewer buildings. Disposal of the surplus stock may not always be possible and consideration may then turn to income generation. Symbiotic relationships between a college population numbering thousands can be more than the location of shops and banks in college. Others include the community use of college facilities for weddings and public performances, Open University facilities, enterprise/small business centres, careers service, etc.

Institutions wishing to contribute to the local economy and develop entrepreneurship may find that they have not only buildings but plant, consultancy expertise and occasional access to highly specialised equipment to offer to ex-students who in turn can offer a 'real-life' commercial environment and workplace experience to students. The direct commercial income from new companies may be set at no more than a peppercorn rent in the first year or so but it can draw in grant aid and be an investment for the future as well as a contribution to the serving the mission statement.

John Avery's checklist includes options not formerly part of the college experience, such as franchising out and evaluating the payback period for the replacement of

inefficient buildings. The first has been practised for some time by the old universities through the transfer of activities to FE colleges. Competition may be thought to be a limitation on co-operation but the so-called Pilkington Committee (1969) advocated joint use of expensive and under-used facilities as well as co-operation with employers in the 1960s, it may be time to re-visit the practice. Examples of the second are likely to include high cost and limited life premises such as portakabins and old and poorly maintained annexes some distance from main college facilities.

All of the above have been located within the written and unwritten rules that have guided past practice, albeit with varying degrees of interpretation and use by colleges and their local authorities. Two significant changes, one now in operation and the other in the offing, need to recognised. The first is the opportunity to sell assets and look to the use of the income to support re-investment. The position of the college has been strengthened considerably and clear guidelines and mechanisms are available. The checklist and the FEFC notes of guidance demand, however, that need has to be clearly established and that the rigours of investment appraisal be met. The route is now open and can support cost reductions over time.

The second major change returns to the Avery checklist and the expansion of notional capacity. The notes of guidance have already identified a 30 per cent tightening of the space norms to which may be added a review of the notional length of the property day, week and year. One of the characteristics of the service industry in recent years has been the significant improvements in customer support, one example of which has been the extended opening hours of banks and supermarkets. In HE the Polytechnics and Colleges Funding Council (PCFC) also indicated that the planning assumption of 40 hours per week for peak time availability of capital assets could come under review. Before colleges respond that this has long been the practice in FE, it needs to be recognised that it has generally been for only part of the year and for partial occupancy of the premises. Reference is nonetheless made to the 9.00am to 9.00pm working pattern for college courses, and to the 44 or 45 week college year, though not as yet so often to the use of facilities on Saturdays and Sundays. Somewhat less common is an analysis of the levels of occupancy or any cost benefit analysis. The latter may point to reducing the opening hours at least for parts of the college where increases in use cannot support the call on resources.

The projected levels of growth in student enrolments and the development of supporting activities such as college companies will need to be examined in the context of the re-appraisal of the capacity and condition of college properties. The relationships are not however simple and linear as account needs to be not only taken

of the curriculum and of students but also of the availability of the facilities. The setting of standards such as the new space norms and the rigorous application of the 40 hour week can be expected to call for managed change. This in turn will impact on the custom and practice of the college's traditional way of operating. What was once a relatively easy if not 'free' resource will have to become another significant factor in resource and curriculum planning. It may also be a significant source of cost reductions.

Other aspects of estates management

The foregoing has been principally concerned with buildings use but before we consider the purchase and use of supplies and services it will be useful to look at value for money in relation to other aspects of managing the college estate.

The FEFC announced in August 1994 (FEFC **Circular 94/21**) that the second of the value for money studies carried out in conjunction with the National Audit Office would be concerned with the management of the college estate. A National Audit Office report on the Polytechnics and Colleges Funding Council, published in 1991, included a value for money model for reviewing estate management. The model suggested examination of: strategy, rationalisation, operation and information. The operation section includes management structure, staffing, running costs and energy management. The model considers the risks to value for money for each of these operational aspects and the following are described:

Management structure: poorly defined roles and responsibilities may lead to misdirected or conflicting actions. Lack of clear authority for decisions may lead to inaction; and a lack of communication between the estate manager and operational managers may lead to ineffectiveness.

Staffing: lack of expertise may lead to poor quality work, excessive costs or loss of income; resources may be wasted by under-employment of skilled staff. The college also may pay high consultancy fees for work which could be done by in-house staff.

Running costs and energy management: buildings may be under-maintained leading to high cost penalties in the long-term or over-maintained resulting in unnecessary expenditure; buildings may be not be energy efficient; rents, insurance, cleaning and other support services costs may be excessive.

The model provided advice on the information and action required in respect of these risks and included the following:

- clear role and responsibility definition and reporting lines;
- establish an appropriate means for estate management to be kept informed of operational requirements and developments;
- introduce incentives to encourage operational managers to reduce their accommodation costs, for example, by identifying accommodation costs to users;
- assess the workload of the estate management function and the level and mix of skills required;
- establish an inventory of the skills of the in-house staff;
- for each building, establish information on its size, age, type, location, condition, use and level of occupancy;
- obtain for each building details of costs of rents, rates, maintenance, insurance, cleaning and other support services, including administration;
- establish suitable bench-marks and produce performance indicators to monitor costs by building;
- monitor all costs periodically to identify trends and make comparisons between similar buildings;
- collect and analyse data on the total energy usage and cost for each building;
- obtain information on standards of energy consumption by building type and compare with college data;
- undertake appraisals of the relationship between capital costs of conservation measures and the resulting running cost savings;
- examine unit costs of energy and consider scope for reduction, for example by negotiation of aggregate contacts for split sites or setting up fuel purchasing consortia in collaboration with other institutions.

SUPPLIES AND SERVICES: PURCHASING

This section is concerned with the purchase of supplies and services and the effective and efficient use of them.

In March 1994, it was announced that the FEFC had invited the National Audit Office to take part in value for money (VFM) studies in the sector (FEFC **Circular 94/05**). It had been agreed that the first subject to be addressed would be college purchasing procedures. The objectives of the study, which was completed in July 1994 were:

- to assess and make recommendations on the effectiveness, efficiency and economy of the procurement activities in a sample of further education institutions; and

- to prepare, on the basis of the findings at the sample institutions, procurement guide-lines which will help promote best purchasing practice among all FE institutions.

It is anticipated that the results and recommendations of this first study will be published in late 1994/early 1995. However, in the spring of 1992, the National Audit Office carried out a review, by visit or questionnaire, of purchasing arrangements in the English universities, excluding London, and examined the organisational structure and practices of the six regional university consortia in the United Kingdom. The NAO also commissioned Purchasing Index (UK) Ltd to obtain comparative information on prices paid for a limited sample of items purchased by the six universities visited.

The results and conclusions of the review were published as a report in May 1993 and many of the findings and recommendations are appropriate to the newly independent FE sector (NAO 1993). The report produced recommendations and action check-lists on three elements of sound purchasing: control over purchasing and supply; achievement of value for money savings; and encouragement of good practice. From the report one can determine a schedule of advice which applies to FE colleges.

Control over purchasing and supply

Effective purchasing is dependent upon good information and for proper control and clear accountability it is necessary to have coherent purchasing policies and procedures. In seeking to introduce and develop devolved budgets and decentralised purchasing it is vital that arrangements include safeguards to secure best prices, to promulgate good practice in purchasing and generally ensure value for money.

The level of internal audit work on value for money aspects of purchasing and supply should be developed and the number of staff authorised to commit college funds must be reviewed regularly. The levels set, above which requisitions require senior management authorisation, should be reasonable and attention must be paid to ensuring the proper separation of duties between ordering and payment authorisation in all cases.

Colleges will need to provide themselves at college and departmental level with good information on purchasing and this information should be derived automatically from routine administrative and accounting systems. Thus, in the continued development of accounting and management information (MI) systems, care must be taken to ensure that information on price, spending frequency, patterns of expenditure, sources of supply, terms of trade, etc. can be obtained regularly and in a readily useable form.

The college's senior management have a responsibility to concern themselves with a comprehensive and consistent overview of the college purchasing policies and activities and this should include training and the application of professional skills. Collaborative arrangements with other institutions should be explored in the search for improved value for money.

Achievement of value for money savings

The exploration of possible collaborative arrangements has to be complemented with a continuous and vigourous search for better value for money from purchasing savings at the individual college level. Comprehensive and accurate MI systems for the routine collection and reporting to management of savings information require development to promote and demonstrate savings and generate ideas for new areas for action.

Stock levels and supply arrangements must be reviewed regularly. Targets should be set and the use of performance indicators in respect of purchasing should be

developed, together with the possible publication of inter-college comparisons of prices paid for a substantial standard basket of goods and services.

The National Audit Office report (1993) suggests the following popular quantitative measurements of purchasing performance:

- timeliness of purchasing actions (percentage of overdue or late orders, buyer backlogs);
- prices paid for materials (savings reporting);
- material quality (rejection rates, specification discrepancies, etc.);
- supplier reliability (late deliveries, backorders, supplier error rates, quality history, etc.);
- order quantity and inventory investment (dead stock, stock turnover versus fill rate, etc.);
- overall buying efficiency (a variety of ratios involving number of buyers, total orders, time, order value, purchasing cost, order type, etc.).

By the collection of the information above, trends of improvement or deterioration can be identified and timely action taken.

Encouragement of good practice

A college senior manager should have responsibility for developing and monitoring purchasing performance and attention must be given to the training of all of those with a responsibility for the acquisition of supplies and services, in understanding and implementing the college's policies and procedures in respect of purchasing.

It is recognised that the majority of FE colleges will not be able to spare sufficient resources to establish a post solely devoted to purchasing management, development and monitoring. However, the increased emphasis on value for money studies initiated at college level through the internal audit process or nationally through the funding councils, means that college managers must include in their ever-increasing portfolio of responsibilities and duties an accountability for ensuring that spending on supplies and services is conducted within a framework which promotes value for money.

Accountability can be faced effectively without recourse to establishing a post solely concerned with purchasing management by means of sound college policies and procedures, regular review, the dissemination of savings achievement, promotion of best practice, training of budget holders and a 'reward' mechanism which encourages the investment of time and energy in the pursuit of value for money.

The National Audit Office report (1993, Appendix 4) gives a working paper from a Committee of Vice Chancellors and Principals which includes the following list of benefits to be obtained from the application of more 'professionalism' to institutional purchasing and supply activities:

- an increased understanding and awareness of particular markets and suppliers;
- advice on the most appropriate methods of procurement and on where aggregating demand would be beneficial;
- elimination of non-essential differences between end-users in the specification of their requirements;
- encouragement to draw up performance specifications and to meet as many requirements with standard or proprietary products;
- avoidance of excessive stocks and inventories;
- promotion of standards to improve quality;
- an emphasis on forward planning (with the attendant advantages in terms of financial planning and cash flow management);
- an improvement in the assessment of on-costs and life-time costings;
- agreement on target prices with end-users with the objective of then beating the target price;
- the investigation of potential new suppliers in a structured way;
- the establishment of good enforceable contracts.

This list of benefits provides strong evidence of the positive impact a purchasing policy framework can have on a college's expenditure budget. The senior management must be prepared to accept the challenge of implementing and developing such a framework.

The effective use of supplies and services

It is essential that the full utility of all goods and services is realised. How often do we discover that stocks remain of a now redundant commodity whether it is a piece of equipment still in excellent working order or consumable materials ordered without assessment of demand and in the spirit of spending up 'my allocation'?

The use of services requires the strictest of monitoring regimes in terms of quality and efficiency. A keen price for the next budget cycle and/or delivery and installation on time is not the end of the story, it is the beginning, because only then will the college start to enjoy the benefits of the service.

If savings were promised, then immediate assessment of the financial benefits must begin. So often the analysis to determine real cash savings takes place at the end of an annual budgetary cycle with the revelation that little or no benefit has been obtained in terms of cost reduction and it is often too late for remedial action in respect of the next budget cycle to be taken effectively.

An initiative to save money has to work. There is too much at stake in terms of setting a tone, creating a cost-conscious atmosphere in which efficient purchasing and effective use can be promoted, and establishing the credibility of cost reduction measures. Care must be exercised in ensuring, and then periodically reviewing, that the optimum conditions for efficient use have been created. If compromise has had to be made in terms of siting, service intervals, storage conditions, etc. were these fully understood at the moment of purchase or lease? If so, was an evaluation made of the possible loss of performance, damage, increase in running costs, etc.? Is the degree of use anticipated, when planning the acquisition, being achieved? What is the service and maintenance experience? Are the terms of the agreement being adhered to by the supplier? Is the college or department keeping to the terms of the contract? Have staff and students been properly instructed in the efficient and safe use of the equipment or apparatus?

These questions, and many more which are included in a performance check-list against which utility can be measured, need to be asked and must form part of the college's purchasing policy. There is no point in rehearsing excuses retrospectively

when savings are not achieved, expensive maintenance (outside a guarantee or maintenance agreement) has to be paid for, unscheduled replacement is required or student achievement is threatened by equipment or software failure. Those who argue for budget allocations and are permitted to commit the college to expenditure must operate within a value for money culture which forms the very foundation of the college's purchasing strategy.

Chapter 4

Making change happen

The operational context in which this report is set is one of on-going change. This period of turbulence has major implications for the ways in which colleges approach their resource acquisition and inward investment strategies. Setting targets and mapping opportunities are but the first and perhaps the easiest of stages in the processes which underpin effective project management. The product of past under-resourcing or overspending, the resourcing of current priorities and the building of vital contingency funds and reserves all contribute to target setting. Savings or rapid growth in income are unlikely to be fortuitous or easy to achieve, and will have to be worked for. The annual cycle of stop-go responses, with the occasional ad hoc adjustment downwards during the year is unlikely to meet the needs of the next few years and beyond. Managers need to approach the challenges with at least the vigour they formerly gave to considerations of growth.

As Armstrong indicated in a recent conference, 'costs will not reduce because management wishes them to, savings need to be worked for'. At that time he offered five guidelines to their management:

- the whole management team and a majority of the governors must want to reduce costs;
- staff must be given free opportunity to be radical and creative;
- strong project control is required, focused on outcomes;

- communication needs to be given priority;
- as many staff as possible should be involved in generating workable solutions.

Therefore, the first step has to be the development of a shared vision and commitment at senior management level based on a matching of the academic development of the college to its resourcing over the medium-term. Where the college strategic plan and operational objectives are related to a clear financial plan it is almost certain that there will be a funding gap.

If the response is to be more than short-term tactical adjustments to tide the college over savings need to be made systematically. Inviting line managers to offer up activities they hold dear so that sound educational practices can be eliminated does not appear a realistic way forward. Indeed, if the activities are not sound then the college needs to question the competence of its managers. When the option is seen as the choice of which limb, or at best which digit, should be amputated, there is clearly a need to develop a new way of viewing the world. Setting priorities for survival or for investing in future growth may seem sound to the detached observer, for those who have nurtured the provision that has to make way there is a need for an effective learning curve.

Without short- and longer-term ownership and leadership by line managers which enables current operational practice to be unfrozen and reformed will be at best silent acquiescence and, more likely, obstruction and consequent rejection. In its framework for generating value for money in public sector organisations, CIPFA identified six elements.

The basic framework for value for money (CIPFA 1987):

- the need to create a sound management environment;
- the setting of clear objectives;
- planning effectively;
- the conversion of plans into effective action;
- the monitoring of progress against objectives; and
- the periodic review and evaluation of activities.

In seeking to implement operational practices to support such a framework it necessary to recognise from the outset that the management of stringency will of

itself impact on how the organisation responds. Simkins and Lancaster (1983) recognised four major shifts that have to be recognised and managed. The first is the move from consensus to protectionism as stark choices begin to be recognised. This is reflected in the shift from the primarily rational perspectives identified in the National Advisory Body's report **Management for a purpose: the report of the good management practice group** (NAB 1987) to a political paradigm. The rational approach presupposes broad agreement on purposes, treats conflict as abnormal and seeks reasoned debate and argument on the basis of shared objectives. A political perspective on the other hand sees conflict as natural and the resolution of differences may or may not lie in negotiation, lobbying and bargaining.

The second broad characteristic is the move to centralisation which limits collegial approaches to rhetoric instead of action. The management team and the academic board are given to fine words rather than deeds. This is accompanied by the third feature of a shift in organisational style, that of a loss of organisational flexibility. At the very time when the college may need to be at its most responsive perceptions of threat increase rigidity and fragmentation. The fourth of Simkins and Lancaster's outcomes is closely related to this in that though there may be references to the need for medium-term strategic planning, but the immediate pressures are seen as demanding tactical responses.

The college, when faced with pressures which make standing still impossible, will respond to change in one or more ways ways. Unless the process is managed with strong leadership it may shift from one to another with little purposeful sense of direction. In a review undertaken a decade ago, Elliott-Kemp (1982) offered colleges a model covering five response types. The first, that of *drift*, goes with the prevailing current but without clear direction or purpose. The second, that of *defensive innovation*, seeks to put the clock back and preserve old goals in the new circumstances. It may unkindly be suggested that the protection of working practices exemplifies such a view. *Apparent innovation*, the third option, is possible without substantive change and is characterised by the adoption of the trappings of rhetoric and tokenism. In such a position change is at the margin in terms of resourcing but much is made of novelty; the income generating activities of some colleges may be thought to fall into this category. The fourth option again sees the defence of the status quo as its starting point with a reactive stance to enforced change that leads to crisis management. Planned change, the last route forwards, on the other hand seeks to relate diagnosis to goals, and to evaluate and monitor progress.

The 'seven S' framework (developed by Peters, Waterman, Pascale and Athos in the early 1980s) provides a model for planning and review that can support planned change. They are:

- shared values (superodinate goals);
- structure;
- strategy;
- systems;
- staff
- skills; and
- style.

The first element, *shared values*, comes through common cause and vision, has been touched upon from time to time. It may be over-dramatic to claim that the very survival of the college depends upon sharing these but there is a need to demonstrate to staff the purposes underlying the cost reduction proposals. This report has been concerned with the development of a *structure* for implementation, including the setting of the ground rules and lines of communications. The setting out of a *strategy* will need to include clear targets and spending plans which are supported by operating *systems*, including the college's computerised and manual management information systems. The selection and shared use of key performance indicators as an integral part of the monitoring and decision-taking processes will need to be recognisable across the college.

A recurrent theme is the involvement and knowledge of the staff, the fifth 's' in the framework. Ownership of the issues and the college's strategies may have to be demanded of some managers, it cannot be optional. The setting and adherence to a common agenda and timescales across the college will link in individuals. Strong project control and the identification of the managers responsible for component parts, together with an access climate where comment is invited but focused on outcomes, will also serve to support the generation of ownership. A loss of staff morale is perhaps inevitable and has to be planned for. Management focus has to be kept under review and can be assisted by keeping timescales short. The potential for job losses through redundancy has to be faced by many colleges but the fear and pain can be recognised and minimised by effective management.

The *skills* of analysis, review and communication will be important and can be maximised. Where staff changes are involved the processes of consultation and negotiation will be called for, both in the formal sense with the recognised trade unions and in responding to individuals and groups of colleagues. The final 's' in

the seven part framework is that of *style* and here colleges can already be seen to differ. It is arguably an outcome of the ways in which the other elements are recognised and approached. It is also an over-arching perspective which gives cohesion and shape and as such may be usefully addressed by the management team and the corporation at the outset and again through the processes of managing change. Kanter (1983) gave an amusing and also salutary set of rules for stifling innovation. They may provide a basis for reflection when seeking to manage radical change for the achievement of cost reduction as a strategy:

RULES FOR STIFLING INNOVATION

1. Regard any new idea from below with suspicion (because it is new and it is from below).

2. Insist that people who need your approval to act get several signatures first.

3. Ask departments or individuals to challenge and criticise each other (that saves you the job of choosing, you pick the survivor).

4. Express your criticisms freely, and withhold your praise – let them know they can be fired (that keeps them on their toes).

5. Treat the identifications of problems as signs of failure (it discourages people from letting others know that you know something is wrong).

6. Control everything carefully (make sure that people count everything that can be counted, frequently).

7. Make decisions to re-organise or change policies secret (if you spring them on them unexpectedly that keeps them on their toes).

8. Ensure that requests for information are fully justified and that it is not given freely to managers (you never know what they will do with it).

9. Assign to low level managers, in the name of delegation, the responsibility for figuring out how to lay off staff, cut back, and move people around (and get them to do it quickly).

10. Above all, never forget that you, the high-ups, already know everything.

All colleges face on-going change, for the majority this will have to be achieved by doing more for less. Success will come where the process is seen and managed as a strategic challenge to institutions better versed in the administration of the status quo. The first two years of incoproration have produced many indications that institutions are prepared to use their new found powers. Efficient and effective delivery of learning opportunties will increasingly demand wide ranging strategies for the delivery of services in new ways. Lessons can, and are, being learnt from the tactical manoeuvring of the last two or three years, these now need to be translated into programmes of planning and implemtation that take colleges forward over the next three year to five years. The obverse of Kanter's 10 rules can play an important part in supporting progress.

Appendix 1

References

Agricultural, Horticultural and Forestry Industrial Training Board v. Aylesbury Mushrooms Ltd (1972) Industrial tribunal. All ER280

Atkinson, D (1993) **Costing in further education**. Conference Paper 623 [unpublished]. The Staff College

Audit Commission (1984) **Obtaining better value in education: aspects of non-teaching costs in secondary schools.** HMSO

Audit Commission (1985) **Obtaining better value from further education.** HMSO

Audit Commission and OFSTED (1993) **Unfinished business: full-time educational courses for 16–19 year olds**. HMSO

Avery, J (1992) Estate management in the PCFC sector, in Ann Limb (ed) **The road to incorporation**. ACFHE/The Staff College

Begley, H and J R Nelson (1974) Polytechnic programme planning and budgeting: a practical approach. **Coombe Lodge Report.** Vol 6 No 3.

Casey, J W (1983) An institution experiences contraction. **Coombe Lodge Report** Vol 15 No 11. [o/p]

Chartered Institute of Public Finance and Accountancy (1974) **Cost reduction in public authorities: a view**. CIPFA

Chartered Institute of Public Finance and Accountancy (1987) **Key issues in getting value for money**. CIPFA

Chartered Institute of Public Finance and Accountancy (1980) **Value for money in the public sector (or the wastewatchers' guide).** CIPFA

Chartered Institute of Public Finance and Accountancy/SOLACE/LAMSAC (1982) **Local government value for money handbook. Vol 1.** CIPFA

Committee on the more effective use of technical college resources [Pilkington committee] (1969) **A report on the use of costing and other financial techniques in technical colleges.** HMSO

Coopers and Lybrand (1987) **Further education costing: final report.** Manpower Services Commission

Department for Education (1994) **Statistics of education: further and higher education – student:staff ratios and unit costs 1992–1993.** DFE

Department of Education and Science (1970) Output budgeting for the Department of Education and Science. **Education planning paper No. 1**. HMSO

Department of Education and Science (1984) Assessing the capacity of further education buildings. **Design note 37.** Architects and Buildings (DES)

Department of Education and Science/National Advisory Council on Education for Industry and Commerce (1970) **A report of an inquiry into the pattern and organisation of the college year by the committee on the more effective use of the technical college resources. Chairman Sir Joseph Hunt.** HMSO

Department of Education and Science/Welsh Office, (1987) **Managing colleges efficiently: report of a study of efficiency in non-advanced further education for the government and local authority associations.** HMSO

Elliot-Kemp, J (1982) **Managing organisational change: a practitioner's guide.** Sheffield City Polytechnic/PAVIC Publications

Further Education Funding Council (1992a) Establishment of the FEFC. **Circular 92/08**. FEFC

Further Education Funding Council (1992b) **Guidance on estate management.** FEFC

Further Education Funding Council (1993) Units of funding. Schedule showing the units of funding for colleges in the academic year 1992–93. **Circular 93/09.** FEFC

Further Education Funding Council (1994a) Allocation of minor works: funds and other capital matters. **Circular 94/21**. FEFC

Further Education Funding Council (1994b) General circular. **Circular 94/05.** FEFC

Kanter, R M (1983) **The change masters: corporate entrepreneurs at work.** Allen & Unwin

Kedney, R J (1983) Resource management: an education officer's perspective on efficiency and effectiveness. **Coombe Lodge Report.** Vol 15 No 12. [o/p]

Kedney, R J (1991) Management staff ratios and unit costs. **Mendip Paper MP004.** The Staff College

Kedney, R J and T Davies (1993) 50 or more ways to reduce costs: opportunity analysis and selection. **Mendip Paper MP054.** The Staff College

Knight, B (1983) **Managing school finance.** Heinemann

National Advisory Body for Public Sector HE (1987) **Management for a purpose: the report of the good management practice group.** NAB

National Audit Office (1991) **Polytechnics and Colleges Funding Council.** HC668. HMSO

National Audit Office (1993) **University purchasing in England.** HMSO

Saunders, Bob (1993) Job evaluation in the FE corporation. **Mendip Paper MP050**. The Staff College

Simkins, T and D Lancaster (1983) **Budgeting and resource allocation in educational institutes.** Sheffield City Polytechnic

Thomas, Rosamund (1983) The politics of efficiency and effectiveness in the British civil service. **The international review of administrative services.** Vol L No 3

Times Higher Education Supplement (1993) Go-it alone colleges' debts mount

Warner, D (1984) Figuring out full costs. **Education**. 20th May

Wheeler, Gordon (1983) Managing contraction and maintaining quality. **Coombe Lodge Report.** Vol 15 No 11. [o/p]

Appendix 2

Cost reduction processes and options: a checklist

MANAGEMENT COSTS

Elements of process

1. Calculate FTE management staff levels.
2. Assess FTE management staff costs.
3. Calculate illustrative ratios, e.g. staff:manager reporting levels, management:staff ratio, management:student ratio, management unit costs.
4. Undertake diary analysis for overall workload and type of activity, e.g. ratio of professional to administrative/clerical activity.
5. Define purpose and streamline or eliminate meetings.
6. Enhance the clerical/administrative support.
7. Improve the physical working environment and facilities.
8. Clarify and monitor delegated decision-taking.

Cost reduction options

1. Reduce management abatement/remission levels.

2. Increase teaching duties.

3. Scrutinise the cost-effectiveness of time spent in meetings, on reports and on administrative/clerical tasks with a view to elimination, streamlining and/or transfers.

4. Examine split/multiple decision points, multiple reporting to senior staff and levels/span of control of managers, take remedial action to improve delegation and supervision.

5. Review opportunities for replacing existing commitments with specialist part-time appointments and/or contracting out.

6. Examine delayering – the removal of a tier of existing management.

OTHER STAFF COSTS

Elements of process

1. Assess past staff turnover, review records and make projections.

2. Identify staff on temporary contracts and those aged 50+, 60+ and over 65.

3. Analyse staff absence records.

4. Begin to review short-term criticality, need for longer-term fit and assess financial costs of major options.

Increasing staff productivity

1. Rank order teaching group sizes and review lower deciles/quartiles with a view to class mergers, alternative modes of delivery or possible closure.

2. Rank course lengths by major mode of attendance and consider cutting course hours or using alternative modes of delivery.

3. Rank order average lecturer hour returns, identify light timetabling and improve averaging.

4. Review actual college practice in sections/departments with regard to the timetabling of tea breaks for academic staff to avoid loss of class contact time.

5. Reduce/re-allocate reduced class contact/abatement activities.

6. Re-allocate 'elements of class contact' equivalent duties such as invigilation, work placement supervision, marketing and counselling to non-academic pay grades.

7. Establish/increase the profitability of full cost courses.

8. Cut or franchise out high cost – low fixed income activities.

9. Time off in lieu of enhanced overtime for support staff.

10. Review retainer pay.

11. Examine redundant activities such as weekend boiler checks.

12. Examine and remove overlapping paperwork/multiple forms and repeated administrative functions.

13. Monitor buildings maintenance work for speed, quality and completion.

14. Review working hours, throughput and demand/productivity in the college libraries, out-reach and drop-in learning centres.

15. Retrain and redeploy staff.

Managing staff changes: first options?

1. Check that projected turnover and non-staff savings will not meet targets. Revisit other options against possible job losses before considering the following.

2. Reduce/cut out support staff overtime and replace with time off in lieu where necessary.

3. Dismiss part-time support staff.

4. Reduce/cut out academic staff overtime.

5. Dismiss part-time lecturers by the non-renewal of contracts.

6. Cease other temporary contracts.

7. Require retirement at 60+ or 65+.

8. Seek stepping down from full to fractional posts as phasing in last year or two to retirement.

9. Hold career review interviews and consider 'encouragement to leave' advice where appropriate.

10. Seek moves from full-time to fractional posts in administration, libraries and technician support areas.

11. Offer job sharing where full/fractional posts can be saved.

12. Examine short time working/temporary lay-offs.

13. Remove individual job/salary protections.

14. Renegotiate grade protection anomalies e.g.'teaching' Ss and former LII grades with reduced teaching loads.

Retirements and dismissals

1. Take action on any allegations of repeated and gross misconduct.

2. Take action on any allegations of incompetence.

3. Take action on long-term and intermittent absences.

4. Offer early retirement in the efficient exercise of the service from age 50, i.e. without enhancement.

5. Offer selective early retirement with enhancement on calculated on an individual basis.

6. Seek voluntary redundancies.

7. Offer voluntary redundancy with retirement in the efficient exercise of the service but no enhancement (age 50+ only).

8. Offer voluntary redundancy with enhanced early retirement (age 50+ only).

9. Dismiss staff with less than two years' service.

10. Compulsory redundancy.

Review of terms of new appointments

1. The non-filling of vacancies.

2. Increase the proportion of part-time staff/overtime working.

3. Replace full-time with term-time only/fractional posts.

4. Downgrade the replacement and flatten the promotion structure.

5. Worsen the starting point on the salary scales.

6. Change the conditions of service for lecturers to increase flexible working.

7. Change the conditions of service for lecturers to increase the number of teaching weeks in the academic year.

8. Change the conditions of service for lecturers to increase the maximum class contact hours per week.

9. Introduce instructors/demonstrators/supervisors on new grades and conditions of service.

10. Contract out for services.

Contractual changes for existing staff

1. Change the conditions of service of existing staff in terms of hours worked per week.

2. Change the conditions of service of existing staff in terms of weeks worked per year.

3. Remove restrictions on reasonable flexibility and mobility.

4. Reduce the period of notice of termination.

5. Dismiss lecturers and offer re-employment on instructor/demonstrator/supervisor grades and conditions

6. Transfer student counsellors, wardens and related posts to new scales and conditions of service.

THE USE OF CAPITAL ASSETS

Elements of process

1. Review the balance of internal space between allocations to teaching, learning, learning support, administration, social use and balance areas.

2. Review capacities using new space norms.

3. Review the need for sole use/dedicated rooms against demand/need.

4. Compare actual group sizes with mix of general/dual use rooms.

5. Identify spaces that can be significantly enhanced at low/reasonable cost by removing redundant equipment and furniture, re-decoration and/or new furniture.

6. Review the shared use of dedicated rooms through minor adaptations.

7. Establish an annual review programme, reporting to the corporation.

8. Raise the awareness of occupation costs, including overheads.

9. Complete a full property audit.

Cost reduction options

1. Rank order room frequency analyses, review lower decile/quartile results and re-allocate/change use of space.

2. Reduce peaks and raise troughs over the working day, week and year.

3. Rank order seat occupancy results and divide/partition or expand room sizes to match need.

4. Centralise allocation of non-dedicated rooms. Use computerised timetabling.

5. Introduce cost centre management with annual leases and sanction and reward mechanisms.

6. Expand capacity by lengthening the working day.

7. Expand capacity by operating at weekends.

8. Expand capacity by extending the property year.

9. Franchise out for high cost elements of activities to colleges with spare capacity.

10. Rent out rooms on short- and medium-term leases to compatible tenants.

11. Sell leases for shops and commercial services e.g.banks.

12. Hire out facilities and services.

13. Mothball rooms,wings and buildings until needed.

14. Sell spare land.

15. Sell spare buildings.

16. Replace inefficient buildings.

NON-STAFF RECURRENT EXPENDITURE

Estate maintenance

1. Review the balance of in-house work and contracting out and explore the potential for competition.

2. Create first call contracts. Monitor speed of response and value for money.

3. Evaluate discounts on broad based contracts with larger firms v. non-VAT charges of small suppliers.

4. Assess and compare management/supervision costs of both in-house provision and contract compliance.

5. Review scope for internal redeployment with multi-skill retraining.

6. Examine scope for in-house work eliminating external profit element.

7. Assess the potential for a full, all year round work load for in-house staff.

Security

1. Review the cost-effectiveness of anti-vandalism measures such as alarms, property marking and changes in ground floor glazing.

2. Review the design and lay-out issues identified in DES Architects and Buildings publications.

3. Seek police crime prevention advice.

4. Examine cost benefits of in-house v. contracted out services, e.g. security patrols.

5. Establish college policies for responding to 'hoax' alarms.

6. Review possible insurance discounts.

7. Raise security awareness and train in-house staff.

8. Examine monitoring/supervision practices for in-house and contracted-out services.

Insurance

1. Consider consortia purchasing with other colleges or local authorities.

2. Periodically seek tenders from a range of brokers.

3. Examine discounts for a comprehensive portfolio.

4. Guard against knock-on clauses e.g. requirement to use insurer's nominated contractors.

5. Synchronise annual review dates.

Utilities

1. Analyse phone, water and energy bills for errors.
2. Analyse phone bills for unused/underused lines.
3. Analyse phone bills for high cost/'illegal' calls.
4. Compare gains from call-barring via the switchboard with costs.
5. Review water metering for leaks.
6. Review energy tariffs for best returns.
7. Guard against long-term lock-in clauses with bill analysis agencies.
8. Check energy savings surveys and consultancy with any follow-on package offering payment paid for from future savings against college managed remedies.
9. Seek power savings from time clocks and light sensors.
10. Make water savings from replacing automatic flushing of urinals with body sensors.

Catering services

1. Review the trading accounts to identify high cost–low return outlets, low sales areas and periods of service.
2. Analyse the level of identification of overheads in the trading accounts.
3. Undertake a costs–price review.
4. Evaluate opportunities for bulk buying.
5. Assess opportunities of contracting out.

Professional services

1. Review opportunities for in-house, including governor advice on professional matters.
2. Establish a clear policy and budget for the use of professional advisers.

3. Stop and think before you ask for assistance.

4. Seek a range of quotations for fees.

Finance and contract management

1. Review the operation of competitive tendering.

2. Improve contract negotiation skills.

3. Examine payment terms and timings.

4. Monitor the college cash flow profile.

5. Double check that *all* costs have been planned for.

6. Review short- and long-term investment opportunities.

7. Examine guarantees.

8. Evaluate maintenance and service agreements.

Purchasing

1. Assess the centralised v. de-centralised balance in terms of specialist knowledge and needs.

2. Identify gains of regular buying v. costs of stock in hand.

3. Establish college computer hardware and software purchasing policies.

4. Have a clear policy and controls on reprographics, including the supply and use of photocopiers.

5. Assess carefully the granting of a monopoly to any supplier.

6. Ensure co-terminus contracts for related equipment and services to facilitate review and change.

7. Cut out the middle man in purchasing.

8. Seek but assess special deals.

9. Establish and maintain clearance to purchase regulations.

10. Monitor the central purchasing regime, including opting in to major local authority consortia.

11. Determine who can sign on-going leases and contracts.

Examinations and validation

1. Limit the maximum number of college paid entry fees.

2. Set cash limits on examination and validation fees.

3. Cost late entry administration and check charges.

4. Cost external entry administration and compare with charges.

5. Consider payment of fees in advance and refunding successes.

6. Review volume, distribution and college costs for release of staff to validating bodies.

Marketing and publicity

1. Establish the range and value of market research and publicity activities.

2. Co-ordinate contacts with clients, particularly large employers, to reduce duplication of effort and the aggravation factor.

3. Evaluate the need for a college-wide marketing unit.

4. Consider payment-by-results for publicity and recruitment.

5. Assess the contribution of external specialist agencies for market research, press advertising and staff recruitment.

6. Identify specialist staff as client service managers.

Staff development

1. Transfer lecturer release to non-contact time.
2. Undertake support staff training in-house.
3. Plan for cascading from external training.
4. Delegate budgets to major cost centres.
5. Establish clear priorities for monitoring/vetting applications.

Expenses and hospitality

1. Review regulations with regard to choice of mode of travel.
2. Assess car hire v. car mileage rates.
3. Assess car hire v. public transport costs.
4. Review current mileage payment schemes and rates across the college and compare them with the levels set for tax exemptions.
5. Set cash limits within delegated budgets.
6. Regularly review claim patterns.

Costings and pricing

1. Establish a clear cost/price and profit/subsidy policy in terms of who determines and who pays.
2. Identify and examine the extent of overheads/unattributed costs.
3. Establish the level of absorbed costs of individual college activities across the college and compare them with the levels of income being generated.
4. Determine the degree, if any, of delegated flexibility in pricing policies.
5. Set and review clear income targets.

6. Diversify staff activity into profit creation activities, e.g. consultancy, management development, professional design and advice services.

7. Franchise out high cost elements of programmes to providers with spare capacity.

8. Monitor the bottom line of commercial activities, including staff costs associated with lettings, refectories and residences.

Coombe Lodge Report
ISSN 0305 8441

Volume 24 Number 6
1995

Price £9.50